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MPIfG Discussion Paper 02 / 1
ISSN 0944–2073
February 2002

Abstract

The containment of social expenditure growth has been (and still is) a core issue of public policy in advanced industrial countries since the 1980s and has received much academic attention during that period. Among the most extensively discussed explanatory factors of social expenditure are partisan politics and political institutions, as well as the dependency of the real impact of the former on the latter. The paper distinguishes five competing theoretical perspectives and explores their power to explain the empirical variation in the period 1982–1997 in 21 OECD countries. The empirical analysis of short-term dynamics is performed in a time-series cross-section framework while long-term level effects are explored in a cross-sectional setting. By using an interactive model specification the authors show that there is empirical evidence for this conditional effect, albeit it is neither thoroughly convincing nor leading to lasting long-term level effects. Extensive specification tests show that the 1990s witnessed a weakening of partisan effects which were still present in the 1980s. In total, the evidence tends to give most support to the "growth-to-limits" and the "new politics" perspectives.

Zusammenfassung

Die Beschränkung des Wachstums der Sozialausgaben war (und ist) ein zentrales Anliegen staatlicher Politik in fortgeschrittenen Industrieländern seit den 1980er Jahren und hat in dieser Periode in der akademischen Debatte große Aufmerksamkeit erhalten. Zu den meistdiskutierten Erklärungsfaktoren zählen parteipolitische Differenzen und politische Institutionen sowie die Abhängigkeit ersterer von letzteren. Das Discussion Paper unterscheidet fünf verschiedene Theorieansätze und untersucht ihren Beitrag zur Erklärung der empirischen Varianz im Zeitraum von 1982 bis 1997 in 21 OECD-Ländern. Die Analyse der kurzfristigen Veränderung erfolgt im Rahmen einer kombinierten Zeitreihen-Querschnittanalyse, während die langfristigen Niveauunterschiede mittels einer Querschnittanalyse untersucht werden. Mit Hilfe einer interaktiven Modellspezifikation zeigen die Autoren, dass empirische Belege für diesen Konditionaleffekt vorhanden sind, die allerdings weder vollkommen überzeugen noch langfristige Niveaueffekte zeitigen. Ausführliche Spezifikationstests deuten darauf hin, dass die Parteieneffekte, die in den 1980er Jahren vorhanden waren, in den 1990er Jahren deutlich schwächer wurden. Insgesamt stützen die Befunde die These des „Wachstums zu Limits“ und die These der „Neuen Politik“ am ehesten.

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1 Introduction[1]

The end of the post-war economic miracle in the late 1970s was a watershed for social policy development. Rising unemployment rates, increasing public debt, declining economic growth, globalization, and changing demographics and occupational structures have increased the pressure on the advanced welfare state and have prompted social policy reform in many countries. Today, mature welfare states are beset with manifold difficulties and new challenges (Kaufmann 1997). Consequently, increasing interest has emerged in issues relating both to recent developments and perspectives of the welfare state. Several books have been published which take stock of recent social policy developments in OECD countries in a period of marked challenges which the mature welfare states are facing now they have left the halcyon days of the golden age behind them (Bonoli et al. 2000; Ferrera et al. 2000; Scharpf / Schmidt 2000; Huber / Stephens 2001a; Kuhnle 2000; Leibfried 2001; Pierson 2001; Schmidt 2001a).

This paper focuses on the driving forces behind the dynamics of social expenditure between 1980 and 1997, a period marking the end of the expansionary phase. Specifically,[2] we are interested in the role of politics in explaining the dynamics in aggregate social expenditure in times of permanent austerity (Pierson 2001). We examine the impact of democratic politics and institutional state structures on social expenditure and investigate interaction effects between these variables while simultaneously controlling for a range of socio-economic determinants of social spending. Moreover, we not only test for policy influences on total social expenditure, but also investigate the social expenditure dynamics of particular social programs. Drawing on the latest OECD data (OECD 2000a), we employ a wide range of techniques of regression analysis to examine the determinants of aggregated and disaggregated spending levels in advanced OECD democracies.

The paper is organized as follows. In Section 2, we start with a brief summary of the theoretical arguments on the impact of politics on welfare state dynamics.

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1 The core parts of this paper were written during a visit of Herbert Obinger (Centre for Social Policy Research, University of Bremen) to the Max Planck Institute for the Study of Societies in September 2001. He wishes to express his thanks to the Institute for its welcome and support. We also thank (in alphabetic order) Frank Castles, Martin Schludi, Manfred G. Schmidt, Nico Siegel, Christian Toft, Hannes Winner and Patrick Ziltener as well as the participants at the Conference “Zukunft und Perspektiven des Wohlfahrtsstaates”, DVPW Sektion Politische Ökonomie, Hagen, November 16-18, 2001 for their helpful comments.

2 See Kittel et al. (2000) for our contribution to the quantitative analysis of welfare state expansion.

Section 3 presents an overview of the findings derived from recent quantitative research. We then proceed in Section 4 to describe basic trends in social expenditure over the last two decades. Section 5 presents a series of models of the factors determining welfare efforts over the period from 1980 to 1997. The final Section interprets the findings and concludes.

2 Politics and the Welfare State: Theoretical Accounts

We cannot discuss here the distinct theories on the politics / welfare state link in detail. Instead, we provide a brief summary of the political determinants of social policy discerned in the literature.[3] Specifically, we focus on effects of the partisan complexion of government and constitutional structures, and summarize recent discussions on whether these factors still have explanatory power in the global economy.[4]

Early welfare state research focused predominantly on structural determinants such as the level of economic development, the size of the ageing population or economic growth (Zöllner 1964; Wilensky 1975).[5] It was only in a second wave launched in the late 1970s that politics was increasingly considered to be important for explaining cross-national variation and intertemporal dynamics in spending levels in advanced OECD countries. Since then, a vast literature has shed light on the political forces behind the take-off of western welfare states. Cameron (1978), Stephens (1979), Castles (1982) and Schmidt (1982) point to the partisan complexion of government by arguing that the strength of leftist parties and the major party of the right are crucial for understanding the variation in welfare efforts across affluent OECD countries. Wilensky (1981) and van Kersbergen (1995) argue that Christian democracy is functionally equivalent to leftist parties in expanding the welfare state, although such parties set distinct priorities in designing social programs and prefer social transfer payments. All these ac-

3 For a more detailed discussion, see Cameron (1978: 1245–1251); Alber (1987); Skocpol / Amenta (1986); Hicks / Misra (1993: 671–683); Esping-Andersen (1990); Huber et al. (1993: 716–724); Schmidt (1982, 1993); Overbye (1995); Castles (1999a: 25–96); Lessenich (2000); Bonoli et al. (2000: 8–28); Huber / Stephens (2001a: 14-32).

4 One important – and hopefully transient – omission in this paper is the impact of coordinated versus deregulated production regimes, in particular the role of tripartite arrangements, on dynamics in social spending (see, for example, Huber / Stevens 2001b).

5 It is fair to say that Harold Wilensky belongs to the first generation of social policy scholars claiming that partisan politics and institutions do matter for social policy development.

counts are based on the assumption that partisan incumbents are policy-oriented. Once elected, parties are expected to transform the preferences of their constituencies into policies meeting the demands of their supporters. As Tufte (1978: 104) has put it:

> The single most important determinant of variations in macroeconomic performance from one industrialized democracy to another is the location on the left-right spectrum of the governing party. Party platforms and political ideology set priorities and help decide policy … The electorate, by choosing the governing political party, influences the choice of macroeconomic priorities, at least within the range of options offered by the competitive parties.

To put it differently, political parties are considered to be ideological agents of their electorate acting as principal. However, this view not only conflicts with accounts predicting a modernization-induced end of ideologies mirrored by the emergence of catch-all parties (Kirchheimer 1965), but also stands in sharp contrast to public choice approaches which see politicians as utility-maximizing actors who overwhelmingly are interested in seeking office and re-election. Taking simple textbook models as a point of reference, partisan competition in a two party system ends up in policy convergence and policies that meet the preferences of the median voter. However, the strands of reasoning briefly sketched above are extreme poles on a continuum.[6] Hence the question whether the 1990s witnessed an end of ideology and a marked policy convergence is an empirical one.

Yet the explanatory power of partisan theories for public policy outcomes is limited if the institutional constraints to which political actors are exposed are taken into account (Schmidt 1996). Although institutions do not determine public policy, they shape actor constellations, actor preferences and the modes of interaction between actors (Scharpf 1997). By defining the rules of the political game, institutions influence the degrees of freedom of political choice. In a nutshell, parties are not as free in their room to maneuver as early accounts of partisan influence on public policy have often assumed. To quote Arend Lijphart (1999: 272):

> Federalism, second chambers, rigid constitutions, strong judicial review, and independent central banks can all be assumed to inhibit the decisiveness, speed, and coherence of the central government's policy-making compared with unitary systems, unicameralism, flexible constitutions, weak judicial review, and weak central banks.

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6 Even economists who integrate office-orientated behavior of incumbent parties in their models and assume rational expectations discover partisan effects on macroeconomic outcomes, at least in the short-run when prices and wages are assumed to be sticky (Alesina / Rosenthal 1995).

In a similar vein, Tsebelis (2000) argues that policy stability increases with the number of veto players. As regards social policy, Wilensky (1975), Cameron (1978), Skocpol / Amenta (1986), Immergut (1992), Huber et al. (1993), Pierson (1995), Schmidt (1996), Castles (1999b) and Huber / Stephens (2001a) have emphasized that state structures shape the capacity of political actors to implement social policy reform. Vertically and horizontally fragmented state structures lacking bureaucratic capacities and institutional veto points have been perceived to stifle rapid welfare state development. Moreover, welfare state structures chosen in the past may impose considerable restrictions on social policy reform (Esping-Andersen 1996). According to this body of reasoning, social policy outcomes emerge from interactions between partisan incumbents and institutional settings. Technically, a test of this proposition requires the modeling of interaction effects between state structures and the strength of political parties, a task not as yet undertaken by quantitative research.

Limits on partisan action capacity are also imposed by the nature of the party system, which in turn is shaped by electoral institutions. In fragmented party systems, parties are typically forced to form coalition governments. A larger number of parties in parliament not only makes coalition governments more likely but also increases the number of parties that represent more narrowly defined, factional interests. Hence small parties are more likely to be able to veto government decisions. This increases the likelihood of deadlock and restrains policy change, which can only be overcome by side payments that either increase social expenditure or impede the effectiveness of cut backs. Hence, on the one hand, higher fractionalization might increase policy stability since each coalition party holds veto power and coalition partners have to agree on a joint course of action. On the other hand, it can be argued that fragmented party systems and grand coalitions are prone to augment social spending because of logrolling. Again, we face two plausible arguments and have to relegate the issue to empirical analysis.

In recent years, a new debate has emerged about the role of politics in explaining social expenditure dynamics in a period that is framed by marked transformations in the international political economy[7] and adverse macroeconomic performance. Five strands of reasoning can be distinguished. First, Paul Pierson

7 There seems to be unanimity that globalization has increased the economic vulnerability of most OECD countries (Scharpf / Schmidt 2000). Yet no consensus exists on how economic vulnerability and trade openness impact on the size of the welfare state. Cameron (1978) was the first who argued that small open economies have a larger public sector which protects domestic workers from distortions induced by the world markets. In contrast, the more recent efficiency thesis argues that economic openness is a threat to social standards. For a detailed discussion on the relationship between trade and the welfare state, see Rieger / Leibfried (2001).

(1994, 1996, 2001) argues that the politics of welfare state retrenchment in times of austerity is considerably distinct from the political processes underpinning welfare state expansion. Consequently, "research on the 'golden age' of social policy will provide a rather poor guide to understanding the current period" (Pierson 2001: 2). Accordingly, the driving and braking forces underlying the golden age of welfare capitalism do not contribute to our understanding of social policy in hard times (Bonoli et al. 2000: 23–24). Pierson argues that a new logic of politics is responsible for the remarkable resilience of the welfare state over the last two decades. This rationale is merely driven by a politics of blame avoidance that has restrained office-oriented politicians from welfare state retrenchment since efforts to scale down the welfare state involve high risks of electoral punishment. Given this new logic of blame avoidance, one might argue that partisan effects on social policy should vanish. As a result, a political ratchet-effect exists because blame avoidance makes a race to the bottom in social standards rather unlikely, while globalization imposes constraints on further welfare state expansion. What we can observe are efforts of renegotiating and restructuring the welfare state but no dismantling (Pierson 2001: 14). Scharpf argues that nations face distinct pressures resulting from increased international competition since the impact of globalization is mediated by national employment regimes and welfare state systems (Scharpf 2000c: 86). Both Scharpf and Pierson expect divergent convergence:[8] the mature welfare states face similar pressures for social policy adaptation, but countries respond differently to these challenges contingent upon institutional settings. In the long run, however, welfare states become more similar since all nations are anxious to make their welfare systems more competitive, although the ways in which these adjustments are realized differ from country to country.

While here is consensus among institutionalists that the ways in which nations react to the common challenges of increased economic vulnerability depend on institutional configurations and policy legacies, some pessimist economists expect a race to the bottom in welfare provision, which is driven by increased exit options for mobile capital in the wake of deepened economic integration (Sinn 1997). According to this second view, the role of politics is subordinated to the market forces which induce a downward spiral in welfare provision irrespective of ideology. Apparently, the convergence-to-the-bottom hypothesis has no room for politics since unfettered market forces determine a new social expenditure equilibrium at a low level. In a similar vein, Susan Strange (1995: 291) argues that globalization undermines the primacy of politics and that "the differences that used to distinguish government policies from opposition policies are in process of disappearing."

8 We have borrowed this term from Seeleib-Kaiser (2001: 18).

Third, more optimistic accounts stress that globalization has not weakened the room to maneuver for leftist parties but even partially strengthened it (Boix 1998: 3–4; Garrett 1998: 1). In this view, the whole globalization debate has been much ado about nothing and claims that the welfare state is facing a major crisis come close to a "cliché" (Garrett / Mitchell 2001: 145). This body of reasoning stresses that the old politics of the welfare state still has explanatory power. Those constellations and actors inimical / conducive to welfare statism are thus expected to stimulate welfare state retrenchment / expansion. Accordingly, a persistence of divergence in welfare efforts is more likely since affluent democracies can resist the challenges of globalization with the result that the existing varieties in welfare capitalism are preserved.

Fourth, the probably most pragmatic position expects a natural process of saturation, best described as convergence to an upper limit welfare state equilibrium that is merely driven by catch-up (Flora 1986). The starting point is the considerable differences in welfare state development across nations. In 1997, the range in social expenditure as a percentage of GDP within the OECD world still amounted to 19 percentage points. Big spenders are thus likely to face stronger pressure for welfare state consolidation, while welfare state laggards may still have some leeway in which to expand the scope of public welfare. Consequently, the new politics of the welfare state may be the dominant pattern in the former, while the traditional political mechanisms of credit claiming may prevail in the latter.

Finally, the most recent contribution to this debate argues that parties and institutions are still important, but their effects on social policy are assumed to be crucially distinct compared to those of the golden age. Kitschelt (2001) argues that the success or failure of retrenchment efforts is contingent upon party system configurations and the general framing of such policies. Center-of-gravity theories cannot fully grasp recent social policy developments. Instead, Kitschelt (2001: 269) argues that party systems configured around strong center-right parties are likely to resist benefit cuts in an environment of fiscal and economic crisis. Armingeon et al. (2001) assume that leftist parties are most willing and most efficient in implementing reforms aimed at adjusting present social security arrangements to manifold challenges in order to make the welfare state viable in the future. It is hypothesized that left parties are more credible because such "emergency reforms" are aimed at securing the survival of the welfare state in the long run rather than at dismantling it. Hence the left enjoys the support of its clientele and – most important – the backing of trade unions. In contrast, center-right parties are likely to be accused by the left that restructuring of the welfare state "is simply an exercise in liberal ideology and in saving money on the back of the needy" (Armingeon et al. 2001: 3).

To sum up, we are confronted with conflicting hypotheses about the impact of parties and institutions on the dynamics of social expenditure in hard times. The race-to-the-bottom hypothesis expects no partisan and institutional effects. Two accounts – the new politics approach and the catch-up hypothesis – suggest that the impact of politics is unclear. Both approaches assume high path dependency due to institutional legacies, on the one hand, and past spending levels, on the other. The remaining two approaches expect definite effects on the part of political parties and institutions, but they differ in their expectations about the direction of the effect on social expenditure. According to the “nothing-has-happened” view, which is strongly inclined to the old politics paradigm, leftist parties still have enough leeway to expand the welfare state, while the other strand of reasoning expects leftist parties to be more engaged in retrenchment efforts in order to sustain the core welfare arrangements for the future. Moreover, four accounts assume specific forms of convergence in spending levels and welfare provision. Only the approach inclined to the old politics of the welfare state suggests that the present variations in social outlay prevail in the long run.

This paper investigates what econometric research might contribute to discriminate between these different accounts. More specifically, we examine the driving factors and patterns behind social expenditure dynamics over the period between 1980 and 1997 and test whether political variables contribute to explaining spending efforts in 21 OECD democracies. We start from the hypothesis that the old politics still holds to explain social expenditure dynamics over the last two decades because this can be regarded as the “null” hypothesis. Hence we expect leftist and Christian democratic parties to augment social spending, while institutional veto points should restrain welfare efforts. However, we extend this perspective by assuming that partisan effects are contingent upon the institutional setting to which political entrepreneurs are exposed. We address this hypothesis by modeling interaction effects between political parties and the institutional constraints limiting government discretion. Before presenting the empirical results we provide a brief summary of the state of the art derived from previous quantitative research.

3 Politics and the Welfare State: Evidence from Quantitative Research

Well-established data sets compiled by international organizations such as the OECD and ILO have paved the way for testing the empirical relevance of the different theories on the driving forces behind welfare state development. To date, numerous quantitative studies have tried to single out the role of political determinants in explaining the variation of social spending levels in advanced OECD

Table 1 The Existing Evidence: Studies on Social Expenditure

Author(s)	N	Period (design)	Dependent variable	Impact of politics
Hicks/Swank (1992)	18	1960–1982 (pool)	Social expenditure/GDP	Left parties (+), centrist parties (+), electoral turnout (+), bureaucratic traditionalism (+), state centralization (+) and leftist corporatism (+)
Hicks/Misra (1993)	18	1960–1982 (pool)	Social expenditure/GDP	Left parties (+), centrist parties (+), bureaucratic paternalism (+), strikes (+), voter turnout (+), left corporatism (+), state centralization (+), electoral competition (–)
Huber et al. (1993)		1960–1989 (pool)	Social expenditure/GDP	Left parties (+), Christian democratic parties (+), institutional veto points (–)
Schmidt (1997)	18	1960–1992 (pool)	Social expenditure/GDP	Left parties (+), Christian democratic parties (+), liberal parties (+), age of democracy (+), conservative parties (–), institutional veto points (–), single party government (–)
Garrett (1998)	14	1966–1990 (pool)	Income transfers	Interaction of left parties (+), powerful labor market institutions (+), high exposure to trade (+)
Hicks/Kenworthy (1998)	18	1960–1989 (pool)	Government transfers, decommodification, active labor market policy (ALMP)	Transfers, decommodification: neocorporatism (+) Active labor market policy: left (+) Social transfer payments: Christian democracy (+)
Castles (1999b)	16/17	1960–1993 (cross-section)	Change in total social expenditure/GDP	Decentralization (–)
Kittel et al. (2000)	18	1960–1995 (pool, cross-section)	Social expenditure/GDP	Institutional veto points (–) [1960–1989], no consistent partisan effects
Wagschal (2000)	21	1980–1995 (cross-section)	Change in social expenditure/GDP	No partisan effects, fractionalization of party system (+)
Siegel (2001)	22	1980–1995 (pool)	Social expenditure/GDP	Left parties (+), single party government (–), veto points (Schmidt index) (–) and single party government (–)
Swank (2001)	15	1965–1995, 1979–1995 (pool)	Social expenditure/GDP	Social corporatism (+), inclusive electoral institutions (+), federalism (–), no partisan effects
Garrett/Mitchell (2001)	18	1961–1991 (pool)	Social security transfers/GDP	No effect of different partisan portfolios when lagged dependent variable and a battery of country and time dummies are included
Castles (2001)	19	1984–1997 (cross-section)	Change in social expenditure/GDP	No partisan effects
Iversen (2001)	15	1961–1993 (pool)	Total government spending, government transfers and government consumption as % of GDP, unemployment replacement rate	Replacement rate, government consumption: left parties (+) Government consumption: voter turnout (+) Government consumption: concentration of union power (+)
Armingeon et al. (2001)	22	1960–1998 (repeated cross-section)	Social expenditure/GDP	Golden age (1960–1984): corporatism (+), consociational democracy (+), leftist and center parties (+/–), veto points (–) 1985–1998: leftist parties (–), consociational democracy (–), no effect of institutional constraints, center parties (+/–)
Huber/Stephens (2001a)	18	1958/61–1989/95 (pool, cross-section)	Social security benefits/GDP	Golden age (until 1985): leftist parties (+) and Christian democratic parties (+), institutional veto points (–) 1980s, early 1990s: no partisan effects

(+) = positive association
(–) = negative association

countries. However, from the outset this research has been handicapped by a problem that is well known to scholars of comparative politics and macro-sociology: the dilemma of a small number of cases and a large number of independent variables. Consequently, cross-section regression analysis was initially restricted by insufficient degrees of freedom and thus prone to an omitted variable bias. In the 1980s, new hope emerged to bypass this problem. By pooling cross-sectional and longitudinal data the number of observations was inflated. In addition, it provided the opportunity to examine dynamic processes. These methodological developments fuelled a series of influential papers on the political foundations of the welfare state.

Nevertheless, this kind of research is confronted with various criticisms. Esping-Andersen (1990: x) doubts whether social policy expenditure is a valid measure for a nation's welfare efforts. Following Siegel (2002: 133–136), we do not agree with this critique for two reasons. First, there is a strong correlation between Esping-Andersen's index of decommodification and the social spending level. The second point is more pragmatic and refers to data availability: we use spending data since there are no alternative indicators available that allow a comparison of social policy developments across countries and over time.

Methodologically, quantitative research on the welfare state is facing harsh criticism since it is considered too inadequate to cope with country-specific policy legacies, problem constellations or exogenous shocks (Scharpf 2000b: 766). Moreover, focusing on one single equation across time and space prevents complex causal relationships and interaction effects from being tackled effectively and the impact of country- and period-specific idiosyncrasies is likely to be suppressed (Ragin 1987; see Kittel 1999).

Despite these caveats, many studies have presented findings which – depending, inter alia, on the countries and period analyzed and the operationalization of the various relevant variables – give support to practically all of the above perspectives. Table 1 summarizes the main findings of 16 studies published in the last ten years on how politics influences welfare efforts. Many studies focusing on the golden age conclude that the partisan complexion of government is important for understanding cross-national variation in welfare efforts. Most of the studies examined agree that leftist and Christian democratic incumbency is strongly associated with higher spending efforts (Hicks / Swank 1992; Huber et al. 1993; Hicks / Misra 1993; Schmidt 1997; Huber / Stephens 2001a). Moreover, electoral competition and processes of ideological contagion between these party camps were found to augment social spending (Hicks / Swank 1992). In contrast, Garrett / Mitchell (2001: 168) see no evidence that the partisan complexion of government does influence social spending in the short run, although they admit that, "partisanship is likely to have been an important historical element in the evolution ofwelfare state regimes …" Kittel et al. (2000) find inconsistent, i.e. period-specific, evidence for partisan effects on social spending dynamics. Hicks / Kenworthy (1998), Iversen (2001) and Swank (2001) find only minor evidence for partisan effects on social policy. Hicks / Kenworthy (1998) and Swank (2001) stress the importance of neocorporatist institutions for redistributive policies and outcomes. Hicks / Kenworthy (1998: 1660) conclude that, "relatively slow-to-change institutional differences among nations are more important than relatively volatile partisan governmental traits in determining national political economic performance." Garrett (1998: 82) comes to the conclusion that the interaction of strong labor market institutions with leftist governments ("left-corporatism") and unrestricted capital mobility stimulates spending on income transfers.

Hicks / Swank (1992) provide empirical evidence that voter turnout and partisan competition drives public spending. By contrast, Iversen (2001: 68) and Huber / Stephens (2001a: 68) find no evidence that voter turnout affects welfare efforts. Beginning with Wilensky (1975: 53) and Cameron (1978: 1248–49), many scholars have identified fragmented state structures as inimical to higher spending levels. Huber et al. (1993), Schmidt (1997) and Huber / Stephens (2001a) report a significantly negative impact of an index of institutional pluralism on welfare efforts. Castles (1999b: 47–49) and Swank (2001: 222–23) corroborate these findings by identifying federalism as detrimental to high social spending. Conversely, Hicks / Swank (1992: 666) and Hicks / Misra (1993: 690–95) identify state centralization and a bureaucratic traditionalism as factors that buoy social spending. However, none of these studies have examined interaction effects between parties and constitutional structures.

The bulk of the studies cited focus attention on the golden age of the welfare state. Only a few studies under review concentrate on recent social policy development exclusively. Siegel (2000, 2001) by and large confirms in his analysis the empirical findings derived for the golden age. Leftist parties and to a lesser extent Christian democratic parties still push up social outlay, while institutional fragmentation and single party governments hamper welfare efforts. In contrast, Huber and Stephens (2001a: 220) conclude that partisan effects "disappeared virtually entirely in the 1980s" and that "the overall pattern is one of a sharp narrowing of political differences" (ibid: 221). Swank also finds no partisan effects, but concludes that political institutions shape "social policy responses to domestic fiscal stress and internationalization" (Swank 2001: 232). Wagschal (2000) finds no partisan effects but reports that the fractionalization of the party system buoys spending, while Castles (2001) finds no evidence in favor of either partisan influences or the effects of corporatism. Castles concludes that political factors "are still reflected in levels of expenditure, but do not appear to have been nearly so influential in determining the trajectories of spending in recent years" (Castles 2001: 210). Employing repeated cross-sectional regressions, Armingeon et al.

(2001) observe for the period between 1985 and 1998 that leftist parties and consociational democracies have been successful in containing social spending, while institutional constraints have lost their braking impact on social expenditure growth.

4 Trends in Welfare Efforts in 21 OECD Democracies, 1980–1997

Recently, the OECD has published an updated version of its social expenditure database (OECD 2000a), containing total public and mandatory private social expenditure as well as program-related expenditures for the period from 1980 to 1997. Integrating mandatory private benefits for calculating total social expenditure lowers the risk that welfare efforts are biased in favor of countries where welfare provision predominately rests upon the shoulders of the state.

Table 2 summarizes total social expenditure in 21 democracies between 1980 and 1997. Three lessons can be drawn from this table. First, the average social spending ratio as a percentage of GDP increased from 19.19 in 1980 to 23.77 in 1997. Obviously, a race to the bottom in welfare provision as expected by some economists, arguing that increased capital mobility and deregulation of financial markets would end up in a roll-back of the welfare state, did not take place. Rather, the opposite is true. Frank Castles has shown that social spending in all nations constituted a higher proportion of total public spending in the mid-1990s compared to the early 1980s (Castles 2001: 201). Hence the reach of the welfare state has extended both in absolute and relative terms.

Secondly, Table 2 reveals convergence in welfare spending across nations since both the standard deviation and the coefficient of variation have slightly decreased since 1980. The shrinking coefficient of variation reported in Table 2 indicates prevalence of σ-convergence, i.e. a convergence in spending levels. However, there is also strong evidence of β-convergence[9] for the period under review. β-convergence occurs if the growth rate of social expenditure is inversely related to the initial spending level. Figure 1 plots the annual average growth rate of social expenditure against the logged social expenditure level in 1980. As can be seen, lean welfare states have grown faster in absolute terms than welfare states already developed in 1980.

9 These concepts of convergence stem from growth economists (Barro / Sala-i-Martin 1995).

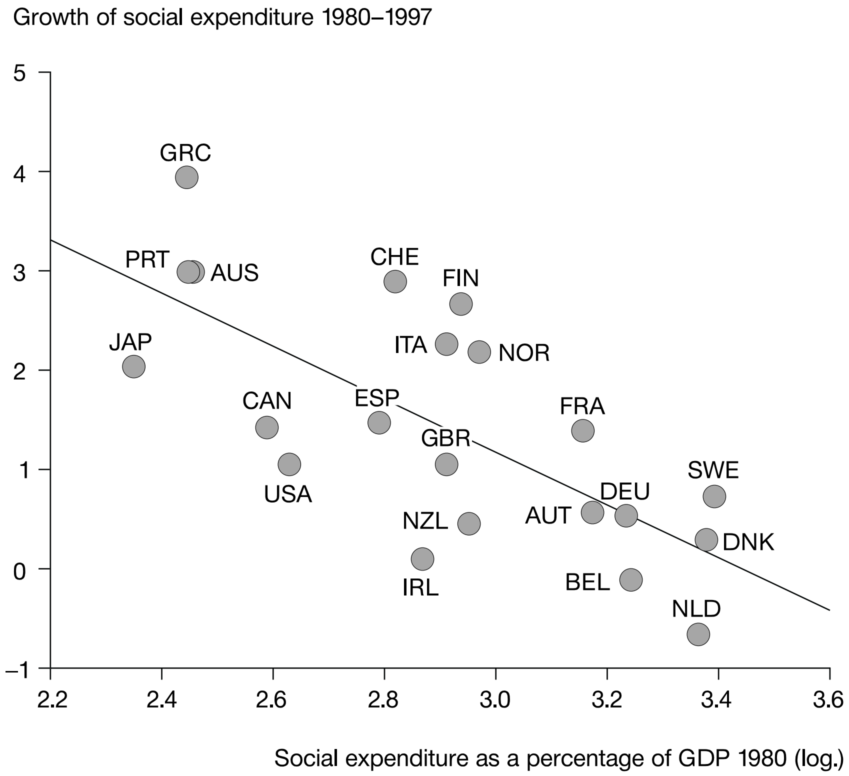
Table 2 Total Social Expenditure as a Percentage of GDP in 21 Advanced Democracies

	1980	1990	1997	Change 1980–1997
Australia	11.67	14.97	19.25	7.58
Austria	23.87	25.13	26.25	2.38
Belgium	25.59	26.72	25.11	–0.48
Canada	13.33	17.79	16.95	3.62
Denmark	29.35	29.01	30.85	1.5
Finland	18.89	25.15	29.49	10.6
France	23.47	26.91	29.64	6.17
Germany	25.38	24.51	27.75	2.37
Greece	11.52	21.99	22.19	10.67
Ireland	17.61	19.38	17.90	0.29
Italy	18.37	24.02	26.85	8.48
Japan	10.48	11.47	14.76	4.28
Netherlands	28.94	29.49	25.86	–3.08
New Zealand	19.15	22.53	20.70	1.55
Norway	18.79	27.16	26.45	7.66
Portugal	11.57	14.31	19.06	7.49
Spain	16.29	19.98	20.88	4.59
Sweden	29.78	32.18	33.67	3.89
Switzerland	16.75	19.34	27.21	10.46
United Kingdom	18.37	19.70	21.93	3.56
USA	13.86	14.73	16.54	2.68
Mean	19.19	22.21	23.77	4.58
Standard deviation	6.16	5.58	5.25	3.81
Standard deviation of log	0.33	0.27	0.23	–
Range	19.30	20.71	18.91	5.77
Coefficient of variation	0.32	0.25	0.22	0.83

Source: OECD (2000a).

Finally, the data still show a considerable variation in welfare efforts as it is expressed by a range of 18.91 percentage points in 1997. The last column of Table 2, which indicates the change in welfare efforts between 1980 and 1997, shows a considerable variation across nations with respect to the extent to which social spending levels have changed over the last two decades. Whereas Belgium and the Netherlands in 1997 devoted less resources to social security compared to 1980, nations like Switzerland, Greece and Finland have dramatically augmented

Figure 1 Growth in Social Expenditure 1980–1997 as a Function of Logged Social Expenditure Level in 1980



their social spending within 18 years, on a scale that amounts to the total Japanese social expenditure ratio in 1980!

The subsequent analysis investigates which factors account for this considerable variation in social spending since 1980. Specifically, we are interested in the question of whether political variables still impact on the dynamics of social expenditure in advanced democracies.

5 An Empirical Assessment of Welfare State Dynamics

5.1 Approach, Core Variables, and Data

In this Section we develop and test several models of social expenditure dynamics over the period 1980–1997. Our analysis proceeds in four steps. First, we explore pooled time-series cross-section regressions for 21 advanced countries in order to assess the effect of political parties and institutional constraints on the short-term dynamics of aggregate gross social expenditure.[10] Second, we check the robustness of the findings from this analysis by performing a series of robustness and sensitivity tests. Third, we examine the long-term effects of the political-institutional variables by running a series of purely cross-sectional regressions for the sample and period under scrutiny. Next, we repeat this analysis for the available data on "net" social expenditure adjusted for a variety of distorting factors (Adema 2000). Finally, we explore the effect of politics and institutions on the structure of social expenditure by analyzing disaggregated expenditure data. Due to the severe restrictions in data availability, these last two steps are only possible in a cross-sectional design.

Our dependent variable is total social expenditure as a percentage of GDP.[11] The political variables of special interest are the partisan complexion of government and institutional rigidity. Data on cabinet portfolios are drawn from a new data set compiled by Schmidt et al. (2000). We use three operationalizations in the regression specifications for the pooled analysis. First, we follow the traditional approach of including both the percentage of leftist (social democratic, socialist, communist and environmentalist ["green"]) seats and the percentage of Christian democratic party seats in government (all expressed in ratios). Second, we use a reverse specification by including only the percentage of conservative party seats. In a third step, we use dummy variables for representing different party constellations in government (coded 1 if a party constellation was found to be present and 0 if not). We distinguish between

1. left dominance,
2. conservative and / or liberal dominance,
3. Christian democratic dominance, and coalition governments formed by
4. left and Christian democratic parties,
5. left and conservative / liberal parties,
6. conservative / liberal and Christian democratic parties, and
7. governments formed by parties from all three groups.

We define dominance as a percentage of government seats of more than 88 percent. Although there is no theoretically plausible justification for this cut-off point, in empirical terms it nicely separates important minority parties in government from practically irrelevant participation. For example, this cut-off point

10 The countries involved are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the UK and the USA. Other countries had to be excluded since we lacked the data for some core variables.

11 A reasonable alternative would be to use per capita social expenditure, which is more suitable to control for cross-national variations in the level of affluence (cf. Schmidt 2001b: 39–40).

defines the Danish conservative government of the 1980s, in which the Christian democratic KRF had a small number of seats, as conservative dominance and includes the participation of the German FDP in leftist and Christian democratic governments in the respective coalition categories. Since there is no occurrence of Christian democratic dominance, this category is dropped in the empirical analysis.

A further dimension of party politics is the fractionalization of the party system. Hicks and Swank (1992: 659) have both theoretically argued and empirically demonstrated that partisan competition is important for social spending. Here we argue that fractionalization is also an important determinant of national welfare efforts. Since fractionalized party systems typically reflect societal cleavages, social policy in fragmented societies might be a tool to cope with conflicts and to increase the legitimacy of a political system. Together with sharp partisan competition this might contribute to an increase in social spending. As a measure of fractionalization we use the index developed by Rae, which is defined as 1 minus the sum of the squared vote shares of all parties (Armingeon et al. 2000).

With regard to the institutional structure of the state, the best-known indices reflecting impediments to government policy discretion are the Huber et al. (1993) index of the constitutional structure and the Schmidt (1996) index of institutional constraints on central government. Although these indices are often used in quantitative comparative analysis, we have decided not to use them here. Since they contain elements which either are not part of the theoretical considerations of the determinants of social expenditure or are expected to have an ambivalent effect because both positive and negative relationships are plausible, we prefer a more focused operationalization. This caveat amounts in particular to the impact of presidentialism versus parliamentarism, the electoral system, and the independence of the central bank.

Therefore, we use these two indices as points of reference for our index of institutional rigidity, which is based on the indices of federalism and bicameralism presented by Lijphart (1999). These two dimensions are considered to be the core constitutional sources of veto power against governments wishing to change the status quo (Tsebelis 2000), and we have combined them into a synthetic index.[12]

To discern the impact of political variables we have to control for the effects of economic and socio-economic variables which are expected to be the driving forces of welfare state reform according to convergence theory. We take into account two aspects of this theoretical perspective. First, internal causes of social

12 We have first subtracted the mean of each of the two indices and divided the resulting value by the standard deviation. Then we have added up the resulting scores and divided them by their maximum, yielding an approximate [-1,1] scale.

expenditure growth are considered. These are the rate of economic growth, the size of the ageing population, and the annual changes in unemployment. Second, we include external trade dependence and a dummy for the countries which have signed the Maastricht treaty with its convergence criteria for EMU, reflecting external pressure to curb social expenditure. These data are based on OECD sources. The size of the ageing population as a percentage of the total population is taken from the OECD health data (OECD 2000b). Economic control variables are from the OECD Economic Outlook database. Moreover, we control for the funding structure of welfare states. Tax-based social payments are easier targets of government discretion than contributory funded insurance systems, which are based on long-term contracts. This variable is defined as the ratio of social security contributions to total tax revenue and is based on the OECD Revenue Statistics. Finally, data on total social expenditure are taken from the OECD social expenditure database.[13] Details concerning the variables and sources of data are summarized in the Appendix.

5.2 Pooled Time-Series Cross-Section Analysis

5.2.1 Model Specification

The core element of the model specifications used in this Section is the interactive effect predicted to exist between the partisan complexion of government and institutional rigidity. As we have argued in Section 2, the expansionary welfare policies of governments led by leftist and Christian democratic parties can only become effective if no constitutional veto players are able to block such propositions. Hence we expect the impact of government composition on the growth in social expenditure to be conditional on institutional rigidity. The coefficient of the variables appertaining to leftist and Christian democratic government seats should be positive and significant in the case of low institutional rigidity, while these variables should have no effect in the case of high rigidity. For conservative party participation we expect a negative coefficient but the same conditional effect, because welfare state retrenchment is equally impeded by institutional rigidity.

13 Annual data on social expenditure are missing for Austria (1980-1989) and Norway (1980–1987). The ILO Cost of Social Security 1949-1993 data for these countries diverge somewhat from the OECD data for the years available in the OECD database, but tend to converge more with the latter by the late 1980s. Hence we have decided to use the ILO data for these periods in the two countries. We have also reanalyzed the models while simply excluding the missing observations. This leads to practically identical conclusions, attaining even “better” significance levels. Thus the models we present are less permissive.

We include time dummies in order to eliminate joint trends and shocks. Hence we transform the model from one described in absolute values into one of relative deviations from the cross-section mean of each year, and focus on the cross-sectional dimension (cf. Baltagi 2001: 11–27). The time dummies are highly significant as a group but we do not report their coefficients in the tables because their values are irrelevant to our argument. We have also explored the inclusion of country dummies, which are jointly highly significant, too. However, since one of our core variables is institutional rigidity, which is time-invariant, we have to exclude them from the specification.[14] However, it is still possible to compare our specifications to a specification containing country dummies in order to assess the extent to which our specifications are capable of taking on cross-sectional variation.

Since the model contains two interactive terms, we enter all explanatory variables in deviations from the overall mean in order to obtain easily interpretable coefficient estimates and to minimize multicollinearity.[15]

5.2.2 Problems of Explaining Levels of Social Expenditure

We start by examining the factors determining the level of social expenditure. This is the approach most commonly taken in recent comparative studies (Huber et al. 1993; Schmidt 1997; Swank 2001; Garrett 1998; Garrett / Mitchell 2001; Huber / Stephens 2001a). Huber and Stephens argue that there are important theoretical and methodological reasons to focus on levels, since analyzing short-term policy changes can give a misleading picture of the factors shaping long-term as well as short-term policy outcomes. It is thus likely that partisan effects are underestimated if the focus of analysis is directed at short-run policy changes (Huber / Stephens 2001a: 36). Indeed, most decisions in the field of social policy have hardly any immediate effects but "mature" over time. Hence we regress the level of social expenditure on the lagged dependent variable, the socio-economic controls

14 Garrett and Mitchell (2001: 163) emphasize that country effects should be included in order to capture idiosyncrasies and that any time-constant variable should be regarded as being part of the "underlying historic fabric of a country." This argument throws out the baby with the bath water because one of the main interests of political scientists in this kind of quantitative analysis is whether institutional variables are able to capture cross-sectional variation to an extent which makes the inclusion of country dummies unnecessary. Hence the ultimate aim is a model in which country effects (and, one might add, period effects) are jointly insignificant.

15 All TSCS-analyses were performed with STATA 7 using the xtpcse procedure, which reports OLS coefficients with Beck / Katz (1995) panel-corrected standard errors. Interaction analyses and sensitivity explorations were programmed in STATA by the authors.

and the political variables. Equation 1 in Table 3 presents this specification. The findings tend to confirm the results from previous research. One notable exception is the significant negative effect of trade dependence, which, according to our model specification, indicates that higher external trade is associated with lower social spending. The regression coefficient of 97.9 percent, which is similar to the ones reported in previous research (e.g. Garrett / Mitchell 2001), indicates that virtually all variation in social expenditure is captured by the model.

However, this specification reveals two problems which potentially invalidate any meaningful interpretation of the coefficient estimates and their significance. The proximity to unity of the coefficient of the lagged dependent variable is an indication of both problems. Equations 2–4 of Table 3 show why. First, Equation 2 re-estimates Equation 1 while excluding all substantively interesting variables. The coefficient of the lagged dependent variable is now closer to unity and the regression coefficient is 97.7 percent. Hence, despite the impressive significance levels reported for Equation 1, all substantive variables jointly add 0.2 percentage points to explaining the variation in the level of social expenditure!

This small contribution to explained variance is caused by the inclusion of the lagged dependent variable, which, in this case, "eats up" all variation. Some argue that including a lagged dependent variable to control for serial correlation is not recommended if there is no reason to believe that the level of a variable is influenced by its level in the previous year (Achen 2000; Huber / Stephens 2001a: 59).[16] One remedy suggested is to use a Prais-Winsten-transformed specification instead of the lagged dependent variable (Achen 2000). However, the condition that there is no substantive reason for persistence is certainly not met in social spending data. Budgets of welfare institutions are made with reference to the budget of the previous year and the largest shares of social spending (health care and old age pensions) tend to increase incrementally. Hence there are substantive reasons for persistence and we should expect that the levels of social expenditure do depend on past levels.[17] Another solution is to use longer lags (Huber / Stephens 2001a: 65). However, there is no better reason for assuming a uniform five-year lag than for assuming a uniform one-year lag. A third approach is to include

16 Serial correlation indicates that the assumption of independence between observations in adjacent years is not fulfilled, which is required for OLS standard errors to be unbiased.

17 Huber and Stephens argue that this correlation is to a large extent spurious because both y_t and y_{t-1} are affected by the same external variables such as policy legacies, but also "political, demographic, historical, and economic causes" (2001a: 60). This is an acceptable assumption for many areas of the welfare state but not, as we argue below, for all areas, and, more importantly, not for those in particular that are susceptible to short-term adjustments. These are the programs that work on the basis of a budget allocated by the government.

Table 3 Determinants of the Levels of Social Expenditure

	Social expenditure			
	Level		Change	
	1	2	3	4
Social expenditure$_{t-1}$	0.94*** (0.01)	0.98*** (0.01)	–0.02 [–1.99]	–0.03 [–2.28]
GDP growth$_{t-1}$	–0.06** (0.03)			
Unemployment$_{t-1}$	–0.02 (0.01)			
Old-aged$_{t-1}$	0.08** (0.04)			
Trade dependence$_{t-1}$	–0.54*** (0.17)			
Maastricht	–0.05 (0.27)			
Social insurance as % of taxes$_{t-1}$	–0.68** (0.34)			
Fractionalization$_{t-1}$	1.59*** (0.53)			
Institutional rigidity	–0.21** (0.08)			
Leftist government$_{t-1}$	0.27** (0.13)			
Institutional rigidity × leftist government$_{t-1}$	–0.16 (0.18)			
Christian democratic government$_{t-1}$	0.89*** (0.33)			
Institutional rigidity × Christian democratic government$_{t-1}$	–0.37 (0.34)			
R^2 (in %)	97.92	97.69	25.11	2.68
Nobs	336	336	336	336
Time effects	included	included	included	excluded
F (parties & institutions)	2.23*			

Panel-corrected standard errors in parentheses
Z-statistics in square brackets
F (parties & institutions) = F statistic of joint test for institutional rigidity, left government, Christian democratic government and the two interaction terms

$_{t-1}$ = Variable lagged one year
*** significant at .01 level; ** significant at .05 level; * significant at .10 level

a time trend in order to capture the general upward trend supposed to cause the serial dependence in the data (Huber / Stephens 2001a: 65). Although this solution may alleviate the problem somewhat, it does not tackle serial correlation itself because detrended data may still be serially correlated. Since the trend takes out the conditional average of the countries for each period, it is likely that countries remain at one side of the estimated period average for several years in a row. This is what causes serial correlation. In our specification, the period dummies can be regarded as a nonparametric time trend, which is more permissive than a linear trend because it does not involve the assumption of identical annual differences represented by the uniform slope coefficient of the time trend. However, as can be seen from Equation 1 in Table 3, including these dummies does not eliminate the high coefficient on the lagged dependent variable indicating extreme serial correlation.[18]

In addition, the respecifications of the model in Equations 3 (including time dummies) and 4 (excluding time dummies), which regress the first differences on the lagged levels, suggest that the problem is even more severe. Since we cannot flatly reject the null hypothesis that these coefficients are zero, we have to suspect nonstationarity and more formal unit roots tests are in order.

We decided to perform the unit roots tests proposed by Im, Pesaran, and Shin (1997) because they take cross-sectional heterogeneity into account. Table 4 reports the findings for various specifications of this test. Since the length of the time series involved is rather short, we refer to the 10 percent critical value. None of the test specifications rejects nonstationarity in the case of the levels of social expenditure, while all test specifications for the changes in social expenditure clearly reject nonstationarity. This not only makes sense from the perspective of path dependency but also corroborates Huber and Stephen's findings (2001a: 65). Hence, despite the low power of unit roots tests,[19] in particular in the limited N, small T setting of our data, the conventional conclusion from these tests is to discard the model in levels and to explore growth processes of social expenditure instead.

18 We have also experimented with specifications including a joint time trend which reduced neither the size of the coefficient of the lagged dependent variable nor, in specifications excluding the lagged dependent variable, the size of the joint serial correlation coefficient in the residuals, which ranged from 0.92 to 0.98, depending on the exact specification.

19 For example, results for panel data on health expenditure – which is an important element of social expenditure – including and excluding time trends lead to contradictory conclusions on the presence of unit roots (McCoskey / Selden 1998; Hansen / King 1998). Note that, in these data, including a trend – which is one of the solutions suggested by Huber / Stephens (2001a) – implied nonstationary.

Table 4 Panel Unit Roots Tests for Social Expenditure

	Social expenditure: levels			
	t-bar	cv10	ψ	p
Not demeaned, no trend	–1.42	–1.75	0.46	0.32
Not demeaned, trend	–2.30	–2.39	–0.65	0.26
Demeaned, no trend	–1.32	–1.75	0.96	0.17
Demeaned, trend	–2.09	–2.39	0.41	0.34
	Social expenditure: changes			
	t-bar	cv10	ψ	p
Not demeaned, no trend	–2.38	–1.75	–4.16	0.00
Not demeaned, trend	–2.45	–2.39	–1.40	0.08
Demeaned, no trend	–2.65	–1.75	–5.41	0.00
Demeaned, trend	–2.77	–2.39	–2.98	0.00

Im, Pesaran, and Shin (1997): (IPS) tests with 1 lagged difference
t-bar: mean of country-specific Dickey-Fuller tests
cv10: 10% critical value of IPS test
ψ: transformed t-bar statistic, distributed standard normal, H0: nonstationarity
p: significance level of test against H

This means that despite the convincing reasons put forward by Huber and Stephens (2001a) in favor of modeling the levels, we contend that the pooled time-series cross-section design is badly suited for this endeavor. Since the relevance of both problems cannot be discarded, we opt to focus on the dynamics in the pooled specification and leave the long-term level effects to be explored by the simple cross-sectional analyses in the next Section. Above all, if we are interested only in the long-term effects, why should we bother about short-term adjustment processes which pervade the time dimension of the pooled specification? This not only pertains to first differences but also to levels.

5.2.3 The Baseline Model: Explaining Growth in Social Expenditure by Leftist and Christian democratic Parties and Institutional Rigidity

Huber and Stephens put forward a battery of arguments against modeling the short-term dynamics. They argue that short-term dynamics are primarily determined by economic cycles, that data errors are more consequential when looking at changes than at levels, and that the “maturation effect makes a mockery of the assumption … of uniform leads and lags” (Huber / Stephens 2001a: 57–58). These are important points. However, we contend that they do not lead to the conclusion that the pooled analysis of levels is better than the analysis of changes. First, the effect of economic cycles can be controlled for by including relevant variables. Further, it is true that data errors bias the results in an analysis of dynamics because parts of the dynamics are due to measurement errors. However, if the time series character of the pooled data set is taken seriously, this also affects the levels because the part of the coefficient capturing the time dimension is also partly driven by the measurement errors. Hence, this problem is a problem of pooling – more precisely of the time dimension of the panel – not a problem of an analysis of dynamics in particular. Finally, the assumption of uniform leads and lags lies at the heart of any pooling endeavor except if the leads and lags are estimated separately for each country and variable – not to mention the possibility of variation between particular subperiods within countries – which implies that we tend to end up, for example, with a set of single-country time-series regressions. Hence, implicitly, Huber and Stephens make such assumptions, too, even when defining their variables in terms of cumulative measures of levels, because the differences in the levels over time enter the parameter estimates as the contribution by the time dimension.[20] From all this it follows that the question basically is not one of levels or changes, but one of pooling or not pooling.

Substantively, a move to analyzing annual changes has much more to recommend than asserted in the literature hitherto. One of the least disputed propositions of the path-dependency literature is that, once social programs are in place, policymakers can change them at best at the margins. This is what Table 3 suggests. Since welfare systems were basically established by the end of the 1970s, for the period analyzed here we should expect the starting level to capture most of the variation in the end level. This is confirmed by a cross-sectional regression of the level of social expenditure in 1997 (expressed as a percentage of GDP) on the level of social expenditure in 1980, yielding

$$\text{Social expenditure (1997)} = \underset{(2.39)}{10.73} + \underset{(0.12)}{0.68} \times \text{Social expenditure (1980)} \qquad R^2 = 0.63,\ N = 21.$$

This finding implies that if we wish to know whether policy reorientations in the 1980s and 1990s were consequential in terms of social expenditure, there is little to learn from an analysis of the levels in a pooled specification. If party preferences or institutions make any difference, we should find differences in average growth, expressed, for example, in percentage point changes. Although effects of policy changes in the large areas of social expenditure – old age pensions and health care – often materialize only after many years, there are policy areas where governments wishing to embark on a policy of welfare retrenchment can attain more immediate success – e.g. benefits for the long-term unemployed, family al-

20 In the current context we do not explore the issue of cumulative measures further because such variables should exhibit nonstationarity by construction.

lowances, or the financial endowment of the social infrastructure. Hence we should find repercussions of policy choices and institutional constraints on short-term dynamics, although these will certainly not be the only ones. But we contend that these are the only ones that can be analyzed in the pooled framework if we take the nature of the time series of social expenditure data seriously.

An analysis of changes has to reconsider the way in which the explanatory variables enter the model. We can use the error correction concept to think of social expenditure (as a percentage of GDP) as "growing to limits" (Flora 1986) by including their level in the model expressed in first differences. At first sight, this is at odds with the conclusion that social expenditure levels are nonstationary because this says that the dynamics of a variable are independent of its level, which is what we find in Equations 3 and 4 of Table 3. However, since there are strong theoretical reasons to include this variable and the conclusions from unit roots tests should not be overemphasized, we nonetheless wish to explore the relevance of this perspective. According to the catch-up hypothesis, higher levels of social expenditure should have a diminishing impact on its growth, reflecting a slow down of social expenditure growth in the more advanced welfare states as compared to the welfare state laggards. We also include lagged differences of social expenditure in order to take into account the presumed stickiness of growth. If policy-makers can only change the margins, it is likely that current growth will be similar to last year's growth. Further, we include lagged GDP growth rates, the change in unemployment, the lagged size of the ageing population (65+), lagged trade dependence, the Maastricht dummy, and social insurance receipts as a percentage of total taxes so as to take into account the socio-economic and institutional framework conditions of social expenditure growth. We anticipate them yielding similar results in the specification in first differences as in the specification in levels. In addition, higher party fractionalization is expected to increase the growth in social expenditure. Finally, the index of institutional rigidity and the two government complexity variables for left and Christian democratic parties are entered, as are their interaction terms with institutional rigidity. Given our starting hypothesis, institutional rigidity should have a negative sign, the two government party variables should have a positive sign, and the two interaction terms should be negative. As before, we also include time dummies.

Table 5 presents different variants of this specification. Equation 1 is the full model as described above. We will discuss it more extensively below. In Equation 2 the party and institutional variables are removed. Comparing the regression coefficients of these two models reveals that these five variables account for 1.3 percentage points of explained variation. Although this is again not impressive, it looks like an improvement over the analogous exercise for the model in levels.[21]

21 The respective regression coefficients (in %) for the model in levels are 97.92 and 97.85.

Table 5 Determinants of Growth in Social Expenditure: Leftist and Christian Democratic Party Effects

	ΔSocial expenditure				
	1	2	3	4	5
ΔSocial expenditure$_{t-1}$	0.05 (0.11)	0.06 (0.11)	0.16 (0.10)	0.07 (0.10)	0.10 (0.10)
Social expenditure$_{t-1}$	–0.06*** (0.01)	–0.05*** (0.01)	–0.03*** (0.01)	–0.06*** (0.01)	–0.26*** (0.05)
GDP growth$_{t-1}$	0.03 (0.03)	0.03 (0.03)		0.06* (0.04)	0.01 (0.03)
ΔUnemployment	0.35*** (0.07)	0.37*** (0.07)		0.46*** (0.07)	0.32*** (0.07)
Old-aged$_{t-1}$	0.12*** (0.04)	0.12*** (0.03)		0.14*** (0.04)	0.21*** (0.07)
Trade dependence$_{t-1}$	–0.37** (0.17)	–0.14 (0.15)		–0.36** (0.18)	–1.65*** (0.43)
Maastricht	–0.26 (0.27)	–0.22 (0.26)		–0.50** (0.21)	–0.37 (0.29)
Social insurance as % of taxes$_{t-1}$	–0.69* (0.33)	–0.40 (0.25)		–0.62* (0.32)	1.49 (2.82)
Fractionalization$_{t-1}$	1.37*** (0.50)	1.10** (0.50)		1.17** (0.49)	–1.18 (1.39)
Institutional rigidity	–0.17* (0.09)		–0.09 (0.08)	–0.18* (0.09)	–0.92*** (0.31)
Leftist government$_{t-1}$	0.15 (0.14)		0.26* (0.13)	0.11 (0.14)	–0.20 (0.21)
Institutional rigidity × leftist government$_{t-1}$	–0.17 (0.17)		–0.20 (0.16)	–0.01 (0.19)	–0.40 (0.30)
Christian democratic government$_{t-1}$	0.67** (0.31)		0.20 (0.30)	0.66** (0.33)	1.20*** (0.46)
Institutional rigidity × Christian democratic government$_{t-1}$	–0.25 (0.34)		0.23 (0.34)	–0.17 (0.35)	–0.75 (0.76)
R^2 (in %)	38.46	37.16	28.43	31.08	48.03
Nobs	336	336	336	336	336
Time effects	included	included	included	excluded	included
Country effects	excluded	excluded	excluded	excluded	included
F (time effects)	2.45***	2.40***	5.12***	–	2.70***
F (country effects)	–	–	–	–	2.78***
F (parties & institutions)	1.29		1.24	1.11	3.29***

Panel-corrected standard errors in parentheses
F (time effects) = F statistic of joint Wald test for time effects
F (parties & institutions) = F statistic of joint test for institutional rigidity, left government, Christian democratic government and the two interaction terms
*** significant at .01 level; ** significant at .05 level; * significant at .10 level

Nevertheless, note that the five variables jointly do not significantly add to the explained variation in the annual changes in social expenditure ($F = 1.29$, $p = 0.27$). Equation 3 excludes the control variables except for lagged levels and lagged changes in social expenditure and the time dummies, resulting in a 10 percentage point decline in the regression coefficient. Further, Equation 4 shows that excluding the time dummies does not significantly change the results except for the Maastricht dummy, which now takes on some of the variation previously captured by the time dummies.

Equation 1 in Table 5 corroborates some of the expectations we have discussed in Section 2, but also shows that the evidence does not support other expectations. The small and insignificant coefficient on lagged growth in social expenditure suggests that in contrast to the model in levels there is no evidence of stickiness in expenditure growth. An increase in lagged levels of social expenditure has a negative impact on expenditure growth confirming the saturation effect.[22] Both unemployment growth and the percentage of the elderly in the population have a stimulating effect on social expenditure. Also, party fractionalization pushes expenditure growth. For the variables with theoretically unclear expectations we find an expenditure-restraining effect of the sheltering of the welfare state from government discretion in insurance-based systems. In addition, and in contrast to most previous studies, we find a significant negative effect of trade dependence on expenditure growth which tends to support the view that more economic openness caused a slowdown in welfare state expansion in the 1980s and 1990s.

Now let us explore the (statistically insignificant) 1.3 percentage points of variation explained by the interactive party / institutions specification. The coefficient estimates and standard errors reported in Equation 1 refer to the main effects if the other variables are set to their overall mean. Institutional rigidity tends to restrain expenditure growth while an increase of both leftist and Christian democratic government participation tends to push expenditure growth. The interaction term is negative, as expected. We can now analyze the behavior of the coefficients for different constellations of the variables. Since our conception of institutional rigidity reflects the constitutional framework of policy making, we analyze the effect of the two government complexion variables at the extreme values of institutional rigidity. Table 6 presents the findings. If institutional rigidity is at its minimum, an increase in government participation of both leftist and Christian democratic parties has an accelerating effect on social expenditure growth. For

22 Although this puts the issue of stationarity in the levels back on the agenda because there seems to be a limit to growth, it does not imply that we can safely return to the levels, because we are still confronted with serious serial correlation and any attempt to take this into account leads back to a partial adjustment specification with an extremely high autoregression coefficient.

Table 6 Effects on Changes in Social Expenditure: Interaction Analysis of Institutional Rigidity and Government Complexion

	Institutional rigidity	
	low	high
Leftist parties	0.29 (0.22)	–0.02 (0.18)
Christian democratic parties	0.88* (0.52)	0.41 (0.30)
Conservative parties	–0.36* (0.22)	–0.16 (0.19)

Entries are coefficient estimates of the effect on social expenditure growth and panel-corrected standard errors for the lowest and the highest value of institutional rigidity. The estimates are based on the models presented in Table 5, Column 1, and Table 7, Column 1.
* significant at .10 level

leftist parties, this effect is nullified if institutional rigidity is high, while Christian democratic parties still seem to be able to somewhat increase social spending in this situation. Hence the model suggests that the institutional context considerably conditions the ability of leftist parties to increase social expenditure, while the overall higher upward pressure of Christian democratic parties can only be restrained, but not nullified, by institutional constraints. Finally, Equation 5 in Table 5, which is particularly interesting because it removes cross-country differences in average social expenditure growth by including country dummies (which are jointly highly significant), is remarkable. First, note that two country effects had to be dropped in order to accommodate the intercept and collinearity with institutional rigidity. Hence, the coefficient of institutional rigidity simply gives the deviation of average social expenditure growth in one of the countries (which one is irrelevant to this analysis) to the intercept and cannot be interpreted (this implies that excluding a different country would change its value). In this specification, the F-test of all party and institutional variables is highly significant and the interactive model for Christian democratic parties and institutional rigidity is significant, while no such effect can be found for leftist governments. However, given the interpretation of the coefficient of institutional rigidity, we do not trust these finding. Furthermore, including country effects reverses the coefficient of social insurance shares in taxes and removes the effect of party fractionalization. These are typical variables which are part of the “historic fabric” of a country (Garrett / Mitchell 2001: 163) and have too little variation in the time dimension to be captured in this specification. Nevertheless, we want to know whether they make a difference and what the nature of the effect is. Hence, since also the findings from this specification concerning the party / institutions interaction are ambivalent at best, we will proceed by excluding the country effects.

5.2.4 Stability Analysis

In a next step, we have explored the stability of these findings by (1) substituting the share of conservative parties in government for leftist and Christian democratic parties, (2) reanalyzing the model for two sub-periods, and (3) using a Jackknife procedure to assess the influence of particular countries on the coefficient estimates. Finally (4), we have replaced the parametric specification of government composition with a set of dummies representing different combinations of leftist, Christian democratic and conservative parties in government.

5.2.4.1 Turning the Perspective: The Impact of Conservative Parties

Equation 1 in Table 7 presents the model for conservative parties. As expected, an increase in the share of conservative parties in government significantly restrains growth in social expenditure, and the last row in Table 6 indicates that this effect is mediated by institutional rigidity, which restricts the downward pressure on social expenditure exerted by conservative parties if expenditure is high. Secular conservative parties thus seem to be highly successful in their attempts to dampen social spending when they are confronted with few institutional barriers. However, retrenchment efforts are less likely to be successful if they are facing considerable institutional constraints. Hence this specification confirms the original findings.

5.2.4.2 Temporal Stability

The subperiod-specific models in Equations 1 and 2 of Table 8 reveal that some findings are stable over time, while others change, say, if the 1980s are compared with the 1990s. The stickiness of social expenditure growth increases somewhat during this period, although the lagged dependent variable does only attain the 10 percent significance level. No noteworthy changes are visible with regard to the effect of the level of social expenditure, GDP growth, growth in unemployment, and trade dependence. The clear effect of the size of the ageing population is reduced in the 1990s. Welfare system differences captured by the ratio of social insurance payments to taxes are pronounced in the 1980s but significantly decline in the 1990s. The effect of party system fractionalization, by contrast, is much stronger in the 1990s. Finally, the most remarkable finding is that the political effects break down in the 1990s. The impact of institutional rigidity as a main effect, which is clearly significant in the 1980s, is practically irrelevant in the 1990s. While the expenditure-boosting effect of Christian democratic parties was both sizeable and statistically significant in the 1980s, it is considerably smaller and insignificant in the 1990s and the interaction term for these parties changes sign.

Table 7 Determinants of the Changes in Social Expenditure: Conservative Retrenchment

	∆Social expenditure		
	1	2	3
	1982–1997	1982–1989	1990–1997
∆Social expenditure$_{t-1}$	0.05 (0.11)	–0.09 (0.20)	0.24 (0.16)
Social expenditure$_{t-1}$	–0.05*** (0.01)	–0.05*** (0.02)	–0.05** (0.02)
GDP growth$_{t-1}$	0.03 (0.03)	0.07 (0.06)	0.04 (0.04)
∆Unemployment	0.35*** (0.07)	0.34*** (0.11)	0.30*** (0.09)
Old-aged$_{t-1}$	0.11*** (0.04)	0.11** (0.05)	0.09* (0.06)
Trade dependence$_{t-1}$	–0.24 (0.16)	–0.14 (0.24)	–0.33 (0.25)
Maastricht	–0.25 (0.28)	–	–0.24 (0.23)
Social insurance as % of taxes$_{t-1}$	–0.52* (0.28)	–0.62** (0.28)	–0.29 (0.54)
Fractionalization$_{t-1}$	1.10** (0.52)	0.52 (0.60)	1.60** (0.78)
Institutional rigidity	–0.09 (0.08)	–0.11* (0.07)	–0.10 (0.14)
Conservative government$_{t-1}$	–0.27** (0.13)	–0.32 (0.20)	–0.26* (0.15)
Institutional rigidity × conservative government$_{t-1}$	0.11 (0.18)	0.07 (0.23)	0.09 (0.24)
R^2 (in %)	38.16	23.82	52.74
Nobs	336	168	168
Time effects	included	included	included

Panel-corrected standard errors in parentheses
*** significant at .01 level; ** significant at .05 level; * significant at .10 level

Only the effect of leftist parties remains constant, although being rather small and, as in the 1980s, insignificant.

Hence the findings tend to support the proposition of a general convergence of social expenditure growth across countries in the 1990s, suggesting that the partisan composition of government had less impact on expenditure during that decade. Only one political effect seems to remain: that of party fractionalization. This

Table 8 Determinants of the Changes in Social Expenditure: Subperiods and Jackknife Range for the Baseline Model

	ΔSocial expenditure			
	1982–1989	1990–1997	Jackknife range	
			lower	upper
	1	2	3	4
ΔSocial expenditure$_{t-1}$	–0.10	0.26*	0.02	0.14
	(0.20)	(0.16)	(FIN)	(NOR)
Social expenditure$_{t-1}$	–0.06***	–0.06***	–0.07	–0.05
	(0.02)	(0.02)	(JAP)	(NOR)
GDP growth$_{t-1}$	0.07	0.03	0.01	0.04
	(0.06)	(0.04)	(NZL)	(NOR)
ΔUnemployment	0.32***	0.30***	0.28	0.39
	(0.10)	(0.09)	(FIN)	(ESP)
Old-aged$_{t-1}$	0.14**	0.08	0.10	0.14
	(0.06)	(0.06)	(NOR)	(NLD)
Trade dependence$_{t-1}$	–0.35	–0.36	–0.53	–0.23
	(0.26)	(0.24)	(JAP)	(BEL)
Maastricht		–0.20	–0.42	–0.10
		(0.25)	(NOR)	(CHE)
Social insurance as % of taxes$_{t-1}$	–0.91**	–0.36	–0.96	–0.50
	(0.39)	(0.67)	(FRA)	(AUS)
Fractionalization$_{t-1}$	0.92*	1.99**	0.86	1.90
	(0.53)	(0.94)	(FIN)	(JAP)
Institutional rigidity	–0.22**	–0.12	–0.22	–0.13
	(0.10)	(0.16)	(ITA)	(DEU)
Leftist government$_{t-1}$	0.20	0.21	0.07	0.29
	(0.18)	(0.20)	(AUS)	(NOR)
Institutional rigidity ×	–0.24	–0.23	–0.34	–0.11
leftist government$_{t-1}$	(0.21)	(0.32)	(AUS)	(DEU)
Christian democratic government$_{t-1}$	0.99*	0.22	0.46	0.96
	(0.51)	(0.39)	(NOR)	(ITA)
Institutional rigidity ×	–0.49	0.24	–0.51	–0.02
Christian-democratic government$_{t-1}$	(0.49)	(0.53)	(ITA)	(DEU)
R^2 (in %)	25.38	52.87		
Nobs	168	168		
Time effects	included	included		

Panel-corrected standard errors in parentheses
*** significant at .01 level; ** significant at .05 level; * significant at .10 level
The Jackknife lower and upper bounds refer to the lowest and highest coefficient estimates obtained from repeated runs of the regression excluding one country after another from the model. The country code refers to the country whose exclusion led to the respective coefficient estimate.

Table 9 Effects on Changes in Social Expenditure: Interaction Analysis of Institutional Rigidity and Government Complexion for Subperiods

	Institutional rigidity			
	1982–1989		1990–1997	
	low	high	low	high
Leftist parties	0.40 (0.30)	–0.04 (0.18)	0.40 (0.31)	–0.02 (0.40)
Christian democratic parties	1.39 (0.82)	0.50 (0.44)	0.02 (0.73)	0.47 (0.44)
Conservative parties	–0.38 (0.33)	–0.25 (0.23)	–0.33 (0.21)	–0.17 (0.32)

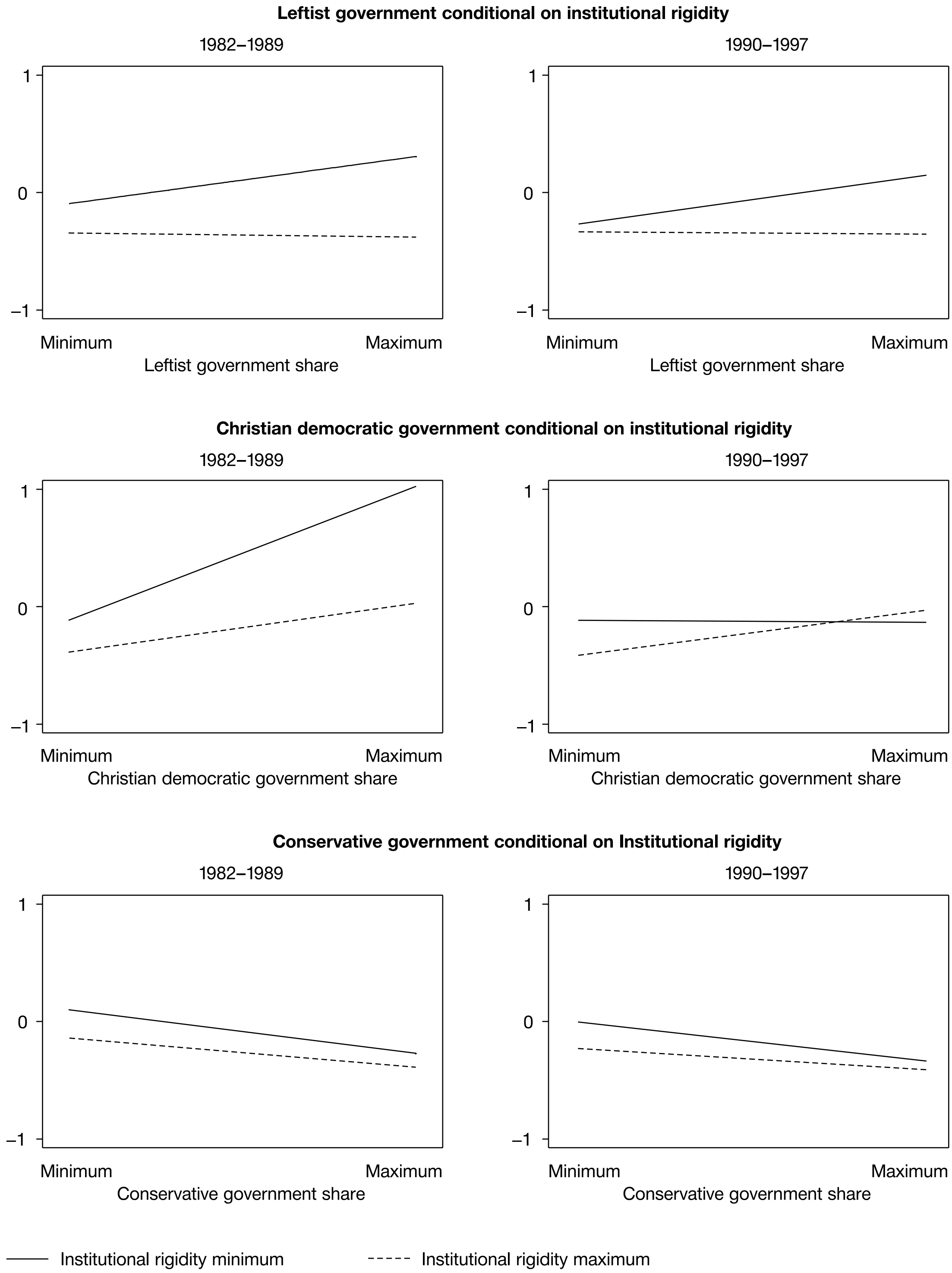
Entries are coefficient estimates of the effect on social expenditure growth and panel corrected standard errors for the lowest and the highest value of institutional rigidity. The estimates are based on the models presented in Table 8, Columns 1 and 2, and Table 7, Columns 2 and 3.

result suggests that, controlling for the socio-economic push factors, cost-cutting in the welfare state is paramount except for situations where governments have to accommodate differing interests due to the larger number of parties needed for a government to remain in office. Hence in the 1990s the ability of governments to embark on a cost-cutting strategy is restricted by the need to find compromises, which tend to limit the extent of welfare state retrenchment.

Table 9 and Figure 2 show where the conditional effects break down. For leftist parties, the standard error increases considerably for high institutional rigidity, indicating that some of the countries characterized by this combination were better able to adapt to the constraints of the 1990s. Yet the most interesting finding is the breakdown of the strong expenditure-pushing effect of Christian democratic parties in the case of low institutional rigidity: while in the 1980s the estimated coefficient was 1.36, it collapses to 0.02 in the 1990s. This suggests that Christian democratic parties in particular have responded to the changing economic environment of the 1990s and that they have only been able to do so when they were not inhibited by strong institutional constraints.

These changes in policy orientation hold particularly for leftist and Christian democratic parties. This is shown by the substitution of conservative parties for these parties in Equations 2 and 3 of Table 7 and by the last row in Table 9, which do not reveal such differences for the effect of party shares and institutional rigidity between the period-specific models. Hence the policy orientation of conservative governments did not change in the 1990s.

Figure 2 Partisan Effects on Social Expenditure Growth Conditional on Institutional Rigidity: Comparison of the 1980s and the 1990s



Vertical axis: “Expected values” of social expenditure growth (in percentage points), expressed in deviations from the period mean

5.2.4.3 Dependency of the Findings on the Inclusion of Particular Countries

We have also explored the responsiveness of the coefficients for the full period specification of our original model (Equation 1 in Table 5) to the exclusion of particular countries. This is done by repeating the analysis while excluding the data for each of the countries in turn. We report the lowest and highest point estimate of each coefficient in columns 3 and 4 of Table 8.[23] Although some of the coefficient estimates vary greatly, all keep the initial sign. It is noticeable that the point estimates the closest to zero for the two interaction terms (–0.11 and –0.03) are both due to the exclusion of Germany. While the exclusion of several other countries leads to a similar reduction of the effect in the case of leftist parties, the value of –0.03 for the interaction term is exceptional for Christian democratic parties. Germany scores high on both Christian democratic cabinet portfolios and institutional rigidity for the whole period under investigation. This indicates that this country drives the interaction effect and that we have to interpret the findings on the conditional partisan effects of Christian democratic governments basically as a story about Germany. While it was better able to restrain welfare expenditure in the 1980s than Christian democratically governed countries lacking institutional rigidity, it could not participate in the swing to retrenchment in the 1990s due to institutional rigidity and, one must add, German reunification.

5.2.4.4 Partisan Complexion of Coalitions

Finally, the respecification using dummy variables representing the types of partisan composition of the governments results in interesting qualifications of the original model. The dummies represent the average deviations in social expenditure growth for the various party constellations in government with respect to conservative dominance which is taken as a reference category. Hence this specification does not assume a linear effect of a marginal change in government seats of particular parties on social expenditure but makes the various constellations directly comparable.

From a theoretical perspective which is inclined to the old politics of the welfare state, the assumption of a linear effect of government partisanship must presume that a dominant leftist and a dominant Christian democratic government have a greater inclination to push social spending than a coalition government between the two. If the proposition that in coalition governments the parties tend to solve conflicts by supplying benefits to their genuine clienteles, one should, however, expect coalition governments to be the main driving factors behind expenditure. This is also suggested by the both statistically and substantively significant positive effect of party fractionalization in the models described above.

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23 Note that these point estimates do not necessarily come from the same regression.

What should we expect for the different party constellations? First, hegemonic conservative governments will have lowest growth in social expenditure because welfare state retrenchment was a definite aim of these governments during the period investigated. Second, if the above proposition holds, we expect that a coalition between leftist and Christian democratic parties exhibits the strongest upward pressure on expenditure. Third, little can be said with regard to the coalitions including conservative parties because conflictive interests tear expenditure in different directions. However, if Pierson's (1996) proposition that welfare state retrenchment is prone to fall short of expectations because of vested interests, one might assume that a government needs to be exceptionally firm in its policy in order to attain its aim. Hence, in such coalitions, the parties preferring a larger welfare state would prevail. Finally, the policy of governments with leftist dominance is hard to predict. On the one hand, leftist parties are definitely in favor of a well-developed welfare state. On the other hand, there is no need for logrolling with other parties, which might restrain expenditure growth.

Table 10 presents the findings of this specification, the model for the whole period in Equation 1 and the models for the 1980s and 1990s in Equations 2 and 3 respectively. Note the increase in the regression coefficient to 40.56 percent as compared to 38.45 percent in the original specification (Table 5, Equation 1) and 37.15 percent in the specification including only party fractionalization, the F-test on the coalition dummies yielding F=3.35 (0.01) (Table 5, Equation 2). This suggests that the deparametrization employed by this specification increases the fit of the model to an extent not attained by the previous approaches. We do not need to comment on the socio-economic variables because their behavior does not change with respect to the original model. Also, an increase in institutional rigidity clearly restrains expenditure growth.[24]

The first striking finding in Equation 1 is that party fractionalization does not have a significant impact on social expenditure anymore. This effect is taken on by the dummies representing coalition governments. Second, all coalition governments have significantly higher expenditure growth than conservative governments (the reference category), while leftist governments do not significantly boost social expenditure. And the third striking finding is that the differences between the various coalition constellations are minor and, as Table 11 shows, statistically insignificant.

24 We have also explored the effect of estimating a different coefficient of institutional rigidity for each of the party constellations in order to take into account the proposition that the effectiveness of government policy is conditional on the possibilities of opposing forces blocking that policy. However, this extension did not prove to be statistically significant.

Table 10 Determinants of the Changes in Social Expenditure: Party Composition of Government

	ΔSocial expenditure		
	1	2	3
	1982–1997	1982–1989	1990–1997
ΔSocial expenditure$_{t-1}$	0.03 (0.10)	–0.13 (0.18)	0.22 (0.15)
Social expenditure$_{t-1}$	–0.06*** (0.01)	–0.07*** (0.02)	–0.04** (0.02)
GDP growth$_{t-1}$	0.03 (0.03)	0.05 (0.06)	0.05* (0.03)
ΔUnemployment	0.37*** (0.07)	0.33*** (0.11)	0.38*** (0.08)
Old-aged$_{t-1}$	0.12*** (0.04)	0.14** (0.06)	0.13* (0.07)
Trade dependence$_{t-1}$	–0.40** (0.18)	–0.85** (0.36)	–0.05 (0.22)
Maastricht	–0.27 (0.26)	–	–0.20 (0.22)
Social insurance as % of taxes$_{t-1}$	–0.85** (0.35)	–1.49*** (0.55)	–0.42 (0.53)
Fractionalization$_{t-1}$	0.36 (0.52)	0.20 (0.61)	–0.40 (0.94)
Institutional rigidity	–0.18* (0.09)	–0.34*** (0.12)	–0.02 (0.16)
Leftist dominance$_{t-1}$	0.18 (0.14)	0.28 (0.17)	0.08 (0.19)
Leftist/conservative coalition$_{t-1}$	0.55*** (0.14)	0.47** (0.20)	0.72*** (0.23)
Leftist/Christian democratic coalition$_{t-1}$	0.39** (0.19)	0.94*** (0.35)	0.01 (0.19)
Christian democratic/conservative coalition$_{t-1}$	0.63*** (0.24)	1.25** (0.50)	–0.04 (0.23)
Leftist/Christian democratic/conservative coalition$_{t-1}$	0.67*** (0.21)	0.72** (0.28)	0.81** (0.33)
R^2 (in %)	40.59	30.29	56.82
Nobs	336	168	168
Time effects	included	included	included

Panel-corrected standard errors in parentheses
*** significant at .01 level; ** significant at .05 level; * significant at .10 level
The reference category of the party dummies is conservative dominance. The category "Christian democratic dominance" did not occur in the data set.

Table 11 Coalition Types: Significance Tests of Differences in Average Changes in Social Expenditure

	Left-Cons	Left-Chr	Chr-Cons	Left-Chr-Cons	Cons
Left	4.4**	1.0	3.2*	5.1**	7.0***
Left-Cons		0.7	0.1	0.3	13.3***
Left-Chr			1.2	1.6	8.3***
Chr-Cons				0.0	10.3***
Left-Chr-Cons					12.1***
All of the above jointly					20.5***

Entries are χ^2-Tests of equality of the coefficients in the model presented in Table 10, Column 1. Conservative dominance is represented by the intercept.
Left: Leftist dominance
Cons: Conservative dominance
Left-Cons: Coalition between leftist and conservative parties
Left-Chr: Coalition between leftist and Christian democratic parties
Chr-Cons: Coalition between Christian democratic and conservative parties
Left-Chr-Cons: Coalition between leftist. Christian democratic, and conservative parties
*** significant at .01 level; ** significant at .05 level; * significant at .10 level

Equations 2 and 3 differentiate these findings with respect to the 1980s and 1990s. While the 1980s witnessed a significant upward thrust of all coalition governments, in the 1990s only coalitions between leftist and conservative parties and coalitions between all three party groups tend to impose upward pressure on expenditure. While the first of these categories encompasses a variety of countries at different points in time, the second consists of Italy in the mid 1980s and Switzerland. Thus, these findings reflect the problems of adjustment under the highly instable political conditions in Italy, on the one hand, and the lagging development of the welfare state in Switzerland (see Obinger 2000), on the other.

Hence three findings of this exploration are striking: first, the fit is better, second, the upward-pushing effect of particular parties on expenditures is minor as soon as coalitions are taken into account, and third, the 1990s witnessed a formidable loss of impact of partisan variables. Note that also the effect of institutional rigidity in the 1990s is close to zero.

5.2.5 TSCS Findings: Summary and Interpretation

Let us summarize the findings from the pooled time-series cross-section analysis. Since social expenditure cannot be regarded as stationary, all analyses using the level as a dependent variable are at risk of leading to spurious inferences. The substantive reason for this is the high path-dependency of welfare state arrangements. Hence we should be very cautious if we are confronted with findings based on pooled time-series cross-section models using the levels of social expenditure as a dependent variable.[25]

More positively, we find a significant and rather stable impact of the level of expenditure, the change in unemployment and the size of the ageing population, which corroborates the initial expectations. In some specifications, trade dependence has a significant negative effect on spending, which suggests that the evidence tends to support the hypothesis that economic vulnerability and market integration put a downward pressure on the welfare state. The positive effect anticipated by those arguing that the welfare state should expand in order to cushion adjustment needs does not appear in any of the specifications. The impact of European Monetary Union (EMU) captured by the Maastricht dummy is minor, which suggests that the countries preparing for EMU did not restrain their welfare states more than those remaining outside it. The effect of the welfare state system, captured by the ratio of social insurance payments to total taxes, is both significant and negative; however, it tends to disappear in the 1990s.

With regard to the political-institutional part of the specification, it should first be noted that the contribution to the explained variation of the dependent variable is very small, ranging from about 1 to about 3 percentage points. Given this proviso, we can conclude that institutional rigidity clearly restrains social expenditure throughout the specifications, but this effect also tends to disappear in the 1990s. The party effects conditional on institutional rigidity are as expected, although – with some marginal exceptions – they fail to attain statistically significant magnitudes. We can conclude, however, that parties are in a better position to attain their aims – which is welfare state expansion or at least consolidation in the case of leftist and Christian democratic parties, and welfare state retrenchment or at least restraint of growth in the case of conservative parties – if institutional rigidity is low. An exploration of the influence of particular countries has revealed a considerable impact of Germany on the results and the reanalysis of the models for each of the two decades has shown that the effects are much stronger in the 1980s than in the 1990s. Hence, again, the models for the 1990s tend to suggest a decline of the impact of political factors on social expenditure as compared to the 1980s. Finally, a respecification using dummies to represent different government constellations reveals that the parametrization used in common approaches – a variable representing leftist and one representing Christian democratic government participation – tends to be too restrictive. Perhaps the clearest finding from the explorations is that upward pressure on social expenditure is less an issue of party preferences than an issue of the need to form coalition governments and partisan competition.

25 Note that this point does not relate to pure cross-sectional analyses.

5.3 Cross-Sectional Regression Analysis

We employ cross-sectional regression analysis for three reasons. First, we acknowledge that partisan effects need considerable time to materialize in social expenditure. Thus, one cannot expect strong partisan influences in the short run, that is on year-to-year changes in social expenditure. This is likely to be the case in the field of pensions, which absorb the major part of the social budget in most countries. It may take several years or even decades until pension reforms are mirrored in the social budget. Second, cross-section regression analysis provides an additional test of robustness for the findings derived from pooled time-series analysis. Finally, we want to examine the political determinants of net social expenditure and prove whether program-related spending dynamics is shaped by the partisan complexion of government. Because of scarce data availability we employ cross-section regressions to tackle these research questions.

5.3.1 Politics and the Growth in Social Expenditure, 1980–1997

Although regression analysis that is based on a cross-section of 21 countries suffers from the problem of few cases and a large number of theoretically relevant independent variables, it will be demonstrated that a parsimonious model explains the bulk of variance in the growth of western welfare states over the period from 1980 to 1997. In contrast to the cross-sectional regressions carried out by Castles (2001) and Wagschal (2000) the dependent variable utilized here is the average of the annual growth rates rather than the change in social expenditure over the period under scrutiny.

In order not to reduce the degrees of freedom of the regression excessively, the total number of independent variables has been restricted to a maximum of four. For checking the robustness of the main variables of interest, several specifications that include different combinations of controls are reported. The method of estimation is OLS. Inspection of the correlation matrix reveals that multicollinearity is not a serious problem.

Table 12 summarizes the empirical findings. Equations 1 and 2 provide some evidence in favor of partisan effects on welfare state dynamics over the long term. The strength of leftist parties is positively and (at the 10 percent level) significantly correlated with growth in social spending, whereas secular conservative parties dampen welfare efforts. However, there is no significant effect of Christian democratic parties (3) and the sign of the coefficient is even negative. The coefficient for the Rae index of party fractionalization is positive but insignificant (4). All control variables exhibit the expected sign and are statistically significant at conventional levels. There is strong evidence in favor of the catch-up hypothesis.

The initial level of social expenditure explains 52 percent of the variance in the growth rates of social expenditure between 1980 and 1997.

Closer inspection of Figure 1 supports the multivariate findings related to the impact of parties on social spending dynamics. In all countries grouped below the trend line, the dominant tendency in office was in favor of right-wing or Christian democratic parties (Belgium, Netherlands). In contrast, leftist and non-Christian centrist parties dominated executives in almost all of the nations located above the regression line. Only Italy stands out as an exception.

To ascertain whether these findings are robust, we have substituted the growth of unemployment and the size of the ageing population by economic growth and gross public debt respectively.[26] As Equations 5 and 6 reveal, the partisan effects retain significance. Moreover, both controls show the theoretically anticipated sign, although only the growth variable is significant in both equations. Hence high economic growth and fiscal stress dampen the growth of social spending. As a final test of robustness we have incorporated three socio-economic controls (trade openness, growth of unemployment and the share of the elderly) into the model. In contrast to the TSCS model, trade dependency is not significant in the cross-section, although the coefficient has a negative sign. Moreover, the coefficient of left party strength is no longer significant at conventional levels (Equation 7). Christian democratic cabinet share is again insignificant, while the coefficient for the cabinet share held by conservative parties remains significant at the 5 percent level (not shown). We conclude that the impact of leftist incumbency on the growth in social spending over the last two decades is fragile.[27]

5.3.2 Determinants of Net Social Expenditure

Our previous analysis focused on gross social expenditure. However, gross outlays do not take into account that some nations levy taxes on social benefits while others provide tax expenditures for social reasons. Hence gross expenditure data are likely to bias welfare efforts across advanced nations. In fact, calculating net social expenditure ratios considerably narrows the range between low and high spenders (Adema 1997, 1999, 2000).

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26 No data on public debt are available for New Zealand and Switzerland.

27 We have also tested models that included the interactive specification for the partisan orientation of governments and institutional rigidity used in the pooled specifications (not shown). These models did not suggest the presence of a conditional relationship, and the only significant effect – a positive association between leftist government share and social expenditure growth – appeared to be very sensitive to the inclusion of socio-economic controls.

Table 12 Determinants of the Growth of Social Expenditure (1980–1997 Averages)

	1	2	3	4	5	6	7
Constant	9.84*** (1.38)	8.30*** (1.21)	7.72*** (1.38)	7.07*** (1.48)	13.29*** (1.65)	11.59*** (1.48)	8.19*** (1.24)
Social expenditure 1980 (log.)	–4.03*** (0.49)	–3.64*** (0.48)	–3.42*** (0.58)	–3.96*** (0.54)	–3.25*** (0.48)	–3.00*** (0.42)	–3.50*** (0.53)
Conservative	–1.07** (0.47)	–	–	–	–1.02* (0.55)	–	–
Left	–	1.03* (0.57)	–	–	–	1.32** (0.55)	1.00 (0.58)
Christian democratic	–	–	–0.75 (0.78)	–	–	–	–
Fractionalization	–	–	–	2.77 (1.97)	–	–	–
Old-aged	0.25** (0.09)	0.23** (0.09)	0.25** (0.09)	0.26** (0.09)	–	–	0.22** (0.09)
Unemployment growth	5.58* (2.67)	5.80* (2.78)	7.66** (2.97)	5.72* (2.94)	–	–	5.78* (2.83)
Public debt[a]	–	–	–	–	–1.44** (0.64)	–0.99 (0.63)	–
GDP growth	–	–	–	–	–52.40** (22.01)	–53.50** (20.38)	–
Trade dependence	–	–	–	–	–	–	–0.31 (0.46)
R^2 (in%)	83.0	81.5	78.9	80.2	80.2	82.4	82.0
Adj. R^2	78.7	76.8	73.7	75.2	74.5	77.4	76.0
N	21	21	21	21	19	19	21

Cross-section OLS regression, standard errors in parentheses
*** significant at .01 level; ** significant at .05 level; * significant at .10 level
a Data for Switzerland and New Zealand missing

In this Section we test whether the variation in net social expenditure across affluent democracies is attributable to political factors. Using simple correlation analysis, Kemmerling (2001: 11) has shown that political influences on net social expenditure are weaker compared to those on gross outlays. Unfortunately, data on net spending are available for only thirteen countries and refer to 1995. We thus regress the level of net social expenditure as a percentage of GDP (at factor cost) in 1995 on the partisan complexion of national executives between 1945 and 1995 and replicate this model for gross spending levels in 1995. If social spending has a political dimension, present spending levels should reflect the partisan complexion of government over the post-war period. To take into account different national stages in welfare state development until 1945, we control for cross-

Table 13 Determinants of Gross and Net Social Spending (as a Percentage of GDP in 1995)

	Social expenditure					
	1a (gross)	1b (net)	2a (gross)	2b (net)	3a (gross)	3b (net)
Constant	382.54* (164.9)	123.6 (119.7)	324.03 (229.8)	143.0 (141.8)	577.8* (278.0)	168.0 (139.2)
Year of welfare state consolidation	–0.18* (0.09)	–0.05 (0.06)	–0.16 (0.11)	–0.06 (0.07)	–0.29* (0.14)	–0.07 (0.07)
Conservative (1945–1995)	–0.15*** (0.04)	–0.04 (0.03)	–	–	–	–
Left (1945–1995)	–	–	0.14** (0.06)	0.02 (0.04)	–	–
Christian democratic (1945–1995)	–	–	–	–	–0.01 (0.01)	0.00 (0.03)
R^2 (in %)	73.6	29.8	55.4	14.4	30.6	12.3
Adj. R^2	68.3	15.7	46.5	–2.7	16.7	–5.2
N	13	13	13	13	13	13

Cross-section OLS regression, standard errors in parentheses
*** significant at .01 level; ** significant at .05 level; * significant at .10 level

country variation in the timing of welfare state consolidation. This variable measures the average year when five core social programs[28] have been introduced at the national level.

The results are striking (cf. Table 13). The findings regarding gross social spending in 1995 strongly confirm the "parties-do-matter hypothesis." The parties concentrated at the poles of the political spectrum have affected social spending in opposite ways. However, no significant effect of Christian democracy can be singled out. This finding is not surprising since many social policy scholars have argued that Christian democratic parties merely prefer social transfer payments. Yet, statistical tests not reported here do not support this argument. Although the coefficient shows the anticipated positive sign, the strength of Christian democratic parties in the 13 countries under scrutiny has no significant effect on the social transfer ratio in 1995.[29] Finally, the estimated coefficient of the consolidation variable suggests that welfare state pioneers still devote more resources to social policy.

28 These are old age pensions, health insurance, occupational injuries, unemployment insurance and family allowances. Data stem from Schmidt (1998: 180).

29 The same is true for leftist parties, while conservative incumbency is strongly and negatively related to social transfer levels in the mid-1990s.

Table 14 Growth in Program-Related Social Expenditure 1980–1997

	Unemployment (cash benefits)[a]	Old-age pensions	Public health expenditures[b]	Family benefits
Constant	0.059** (0.027)	0.068*** (0.018)	0.0482*** (0.016)	0.0282 (0.022)
Spending level 1980	–0.0079 (0.006)	–0.0022 (0.001)	–0.0095*** (0.001)	–0.0208** (0.008)
Conservative (1980–1997)	–0.064** (0.023)	–	–	–
Left (1980–1997)	–	–	–	0.073*** (0.024)
Unemployment growth	0.568*** (0.17)	0.079* (0.043)	–	–
Growth in old-aged (1980–1997)	–	2.247*** (0.33)	–0.227 (0.28)	–1.034 (0.93)
Old-aged 1980	–	0.0058*** (0.001)	0.0012 (0.001)	–
Unemployment 1980	–0.0049 (0.003)	–	–	–
R^2 (in %)	83.2	78.6	77.4	46.4
Adj. R^2	78.4	73.3	73.2	36.9
N	19	21	20	21

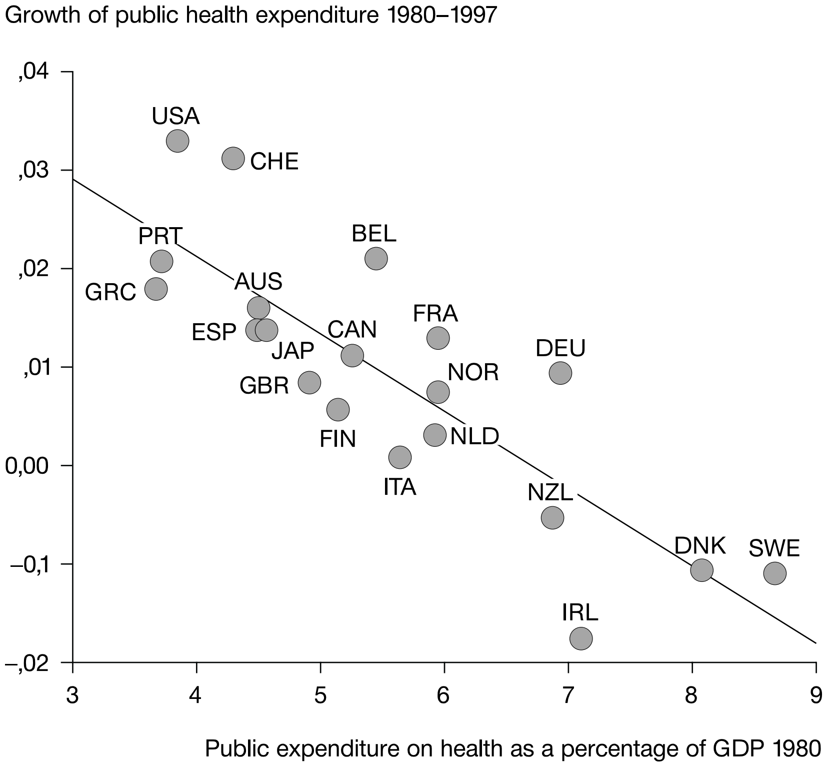
Cross-section OLS regression, standard errors in parentheses
*** significant at .01 level; ** significant at .05 level; * significant at .10 level
Notes: a = Austria and Ireland excluded due to lack of data; b = Austria excluded

However, none of the partisan coefficients retain significance if the determinants of net social expenditure are investigated. In addition, the positive effect of early welfare state consolidation on present spending levels vanishes. These findings point not only to catch-up on the part of welfare state laggards, but also suggest that net social spending levels are not systematically associated with the partisan complexion of government. However, we want to emphasize that these aggregate figures reveal nothing about distribution and equality of outcomes. Such issues are likely to be subject to partisan manipulation. Nevertheless, as far as we can judge from the available data, variation across countries in the total amount of disposable welfare benefits is much smaller compared to gross welfare spending and cannot be attributed to partisan politics.

5.3.3 Political Determinants of Program-Related Expenditures

Finally, we have examined whether program-related expenditure dynamics have been influenced by political factors. We have analyzed spending on unemploy-

Figure 3 Growth in Public Health Expenditure as a Function of Public Health Spending in 1980



ment (cash benefits), old age pensions (cash benefits), family benefits (spending on family cash benefits plus family services) and public health expenditures. Owing to a lack of net expenditure data, the analysis is based on gross spending data. We have used the same procedure as already employed to estimate the dynamics of total social expenditure in Section 5.3.1. Thus we have regressed the growth of program-related spending levels between 1980 and 1997 on the program's initial spending level, the cabinet portfolios of leftist, Christian democratic and conservative parties, and factors which are frequently assumed to drive the expenditures on the program under consideration.

We find little evidence that program-related expenditure growth is systematically influenced by the partisan complexion of government. Only two out of the four programs scrutinized are sensitive to partisan power resources (cf. Table 14). First, left governments devote significantly more resources to families than right ones. Contrary to expectations, the strength of Christian democratic parties even has a negative impact on family support. Empirical evidence suggests that there is no significant trade-off between the size of the ageing population and family-related expenditure. Moreover, family transfers and spending on family services is neither influenced by population growth nor by the size of the population aged 0–19 (not shown). However, growth in family expenditure is inversely related to the initial spending level, thereby providing evidence of catch-up. Second, the strength of conservative parties in national executives has a negative effect on unemployment cash benefits, which nevertheless is driven overwhelmingly by the increase in unemployment rates. In contrast, leftist and Christian democratic incumbency is not significantly related to the growth in unemployment cash benefits (not shown).

Growth in public health expenditure is almost exclusively determined by catch-up (cf. Figure 3). Surprisingly, the impact of size of the ageing population is insignificant. As far as old age pensions are concerned, spending growth is merely driven by population ageing. In contrast to health expenditure no catch-up occurs. However, we find some indirect evidence in favor of the well-known strategy of shortening labor supply via early retirement programs, since the coefficient of growth in unemployment rates is positively and significantly related to increases in spending on old age pensions.

To sum up, the dynamics of public health expenditures and spending on old age cash benefits is largely unaffected by political factors. This either means that political parties are unable to manipulate the largest programs of social security or that partisan competition leads to convergence in program-related spending between nations because of the popularity and the broad coverage of these programs, which typically include the median voter.

5.3.4 Cross-sectional Findings: Summary and Interpretation

We have employed cross-section regression analysis to test the long-term impact of political parties and institutional constraints. Our findings suggest that secular conservative parties significantly contain the growth in social spending, while the positive impact of leftist parties is fragile and Christian democratic parties do not exert any impact on social outlays. A similar picture emerges when the spending efforts for particular social programs are analyzed. The results yielded are inconclusive with respect to the hypothesized interaction effect between partisan portfolios in government and institutional constraints. Compared to socio-economic variables, political factors play a minor role. Growth in social expenditure over the last 20 years has mainly been driven by increases in unemployment and the size of the ageing population. Moreover, we find strong evidence in favor of the catch-up hypothesis, suggesting a natural process of maturation on the part of advanced welfare states. Partisan effects completely disappear when the determinants of net social expenditure levels in the mid-1990s are investigated. This latter result casts serious doubts on the “politics-do-matter school,” although we admit that our test suffers from data restrictions.

6 Conclusion

Starting from theoretical accounts of political influences on social policy, this paper has examined whether the partisan character of national executives impacts on social spending dynamics. Empirical results derived from pooled time-series cross-section analysis and from a cross section of 21 affluent democracies suggest that, first and foremost, social spending dynamics have been driven by rising dependency ratios as reflected in rising unemployment and population ageing. The corresponding coefficients are robust and show temporal stability. Political variables, in contrast, contribute little to explaining welfare state dynamics over the last two decades. Both pooled and cross-section regressions suggest that the strength of secular conservative parties is significantly and negatively related to the growth rate of social expenditure between 1980 and 1997. The breakdown of social expenditure into specific policy areas by and large confirms these findings. We find mixed evidence for the impact of leftist and Christian democratic parties on social spending. While these parties were able to augment social spending in the 1980s, especially when they faced no institutional veto points, partisan effects disappeared in the 1990s. This temporal parameter shift has been overlooked in previous studies based on pooled TSCS analysis. The only political variable of relevance in the 1990s is the fractionalization of the party system.

As a result, the story recounted by our evidence is as follows. During the 1980s, parties were still able to pursue their preferred policy aims, although they were handicapped if constitutional constraints on government action were in place. The 1990s, by contrast, witnessed a policy reorientation towards budget consolidation, which did not leave social expenditure growth unaffected. This reorientation occurred regardless of the ideological orientation of the governing parties. However, the stable and increasing effect of party fractionalization as along with the findings for coalition governments, as compared to governments with a hegemonic party, suggest that consolidation was much more difficult if parties needed to find a compromise between different ideological orientations. This can be interpreted as indicative of the impact of logrolling processes. In sum, however, political variables explain a small percentage of the variance in social spending. Partisan effects completely fade away if the determinants of net social outlays are examined.

An evaluation of the five different accounts on which the debate on the role of politics in hard times is based provides some evidence that the old politics is still at work. The negative impact of conservative parties as well as the partisan and institutional effects in the 1980s support this argument. Yet, spending dynamics in the 1990s is at odds with this view. The catch-up thesis does a better job since catch-up is a common pattern behind the development of social expenditure.

Again this is true both for total welfare efforts and for expenditure on programs such as health and family support. Apparently, OECD welfare states converge to a national equilibrium. To put it another way, a major trend that has characterized welfare state dynamics over the last two decades is a growth to limits (Flora 1986). The national steady states seem to be fairly stable since no large-scale roll-back of the welfare state took place over the period under review. However, we want to emphasize that this evidence derived from aggregate spending data does not imply that no retrenchment has taken place in recent years in more marginal social policy areas. Nevertheless, the race-to-the-bottom thesis can be rejected. Although we find a negative coefficient on trade dependence in the TSCS model, which is stable over time and quite robust against sample changes, simple inspection of trends in social expenditure reveals that only two countries have reduced their welfare efforts. Moreover, trade openness has not significantly influenced social spending dynamics in the cross-section model.

Despite support for the old politics hypothesis in the 1980s, a case can be made in favor of the remaining two strands of reasoning which claim a new politics, on the one hand, and reversed partisan effects, on the other. Both the decline in party orientation effects in the 1990s and the evidence in favor of institutional effects coincide with the expectations advanced by the respective proponents. Although we did not find a negative impact of leftist parties on social expenditure growth, the disappearance of partisan effects and that of constitutional constraints in the 1990s supports a reversed role of political parties. Conversely, vanishing partisan effects may be attributed to a new logic of politics, thereby lending evidence to Pierson's approach. However, the clear and robust effect of the fractionalization of the party system conflicts with the hypothesis put forward by Armingeon et al. (2001), which claims that consociational democracies are more prone to retrenchment. Finally, the divergent convergence scenario stressing the importance of institutional legacies is supported. The structure of the welfare state, insofar as it is captured by the share of social insurance contributions in total taxes, plays a role in that countries with large insurance-based shares tend to have smaller growth rates of social expenditure. This is counter-intuitive if we take into account the proposition that governments which have a firm grip on the welfare state via its funding by general taxes should be in a better position to embark on retrenchment policies. The evidence, however, suggests that insurance-based systems are better able to contain expenditure growth, in order to cut costs.[30]

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30 We cannot yet provide an unambiguous explanation for this finding. One position could be that this apparent political inactivism might be interpreted as a hint that the new politics approach does indeed have much to recommend it. If the organization of welfare programs is delegated to external institutions such as social insurance funds, financial problems are likely to be visible at a fairly early stage through the need to formulate demands on the government budget for additional funding in

Hence, except for the race-to-the-bottom hypothesis, none of the contentions can be clearly rejected. However, the evidence tends to suggest that social policy has undergone important re-orientations in the 1990s which the old politics hypothesis did not predict. Instead, the new politics approach provides some analytic tools which at least do not bluntly contradict the empirical evidence available. Party politics seems to be on the retreat, albeit in a way different from the way it has been conceptualized in previous accounts. The general and all-embracing theories of partisan effects of the 1980s are to be replaced by a focus on the ways in which the partisan complexion matters in finding functional equivalents for attaining the common goal of welfare state "recalibration" (Ferrera et al. 2000). The breakdown of statistical associations in the 1990s does not mean that politics does not matter anymore. It means that politics matters in more subtle ways. Past legacies, which are the result of earlier government decisions based on party preferences, are a crucial element for understanding the possibilities of adjustment which current governments attempt to initiate.

However, the partisan effects of current decisions are less amenable to quantitative analysis because they have little impact on the aggregate level of social expenditure. More important are qualitative differences and preferred program foci, which either tend to turn up at the disaggregated level or to have little impact in terms of expenditure levels at all. It is at this point where case studies have their merits.

public. Hence cost pressures might be more likely to be tackled in a technical and problem-oriented way. In contrast, if social expenditure are hidden in the government budget, vested interests may have much more leeway to block reform because they can more easily embark on policies of blame avoidance. However, this conflicts with the argument that tax-financed systems are easier to change because they are more open to government discretion. This is certainly a point which needs further elaboration in future work.

Appendix

Variable		Source
DEPENDENT VARIABLE	Total public and mandatory private social expenditure as a percentage of GDP	OECD Social Expenditure Database
RIGHT	Cabinet share of secular conservative parties	Schmidt et al. (2000)
LEFT	Cabinet share of communist, social democratic and green parties	Schmidt et al. (2000)
CHRISTIAN-DEMOCRATIC	Cabinet share of Christian-democratic parties	Schmidt et al. (2000)
TRADE DEPENDENCE	Sum of exports and imports as percentage of nominal GDP	OECD Economic Outlook Database
SOCIAL INSURANCE AS % OF TAXES	Social security contributions as percentage of GDP divided by the total tax revenues as percentage of GDP	OECD Revenue Statistics
INSTITUTIONAL RIGIDITY	Sum of index of bicameralism (1971–1996) and index of federalism (1971–1996)	Lijphart (1999: 313–314)
FRACTIONALIZATION	Fractionalization of party system (Rae index)	Armingeon et al. (2000)
UNEMPLOYMENT	Standardized rate of unemployment	OECD Economic Outlook Database
GDP GROWTH	Growth of real GDP	OECD Economic Outlook Database
OLD AGED	Share of the elderly (65+) as a percentage of total population	OECD Health Data

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